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THE IMPACT OF THIRD WORLD DEBT ON U.S. TRADE

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

EXAMINING THE SPECIFIC IMPACT OF THE THIRD WORLD DEBT PROBLEM ON U.S. TRADE WITH DEVELOPING COUNTRIES

OCTOBER 18, 1989

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
24-430 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S241-10.

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CONTENTS

WEDNESDAY, OCTOBER 18, 1989

Page

Opening statements of:

Senator Sarbanes 1
Prepared statement 3
Senator Garn 4
Senator Dixon 5
Senator Gramm 5
Senator Shelby 7
Senator Bond 8
Senator Wirth 9
Senator D'Amato 10
Senator Graham 19
Prepared statement 19

WITNESSES

Robert Mosbacher, Secretary, Department of Commerce, Washington, DC 10
Latin America must open their markets 11
Economic and political stability 11
Restructuring of Latin American debt 11
Prepared statement 14
Response to written questions of Senator Garn 82

Witness discussion:

Value of the dollar 24
Aggressive business development plan 25
The Brady plan 26
Structural reforms 28
United States share of export market has shrunk 30
Monitoring the Brady plan 32
How Congress can help 33
Long term view 36
Fred R. Jones, treasurer, Combustion Engineering, Stamford, CT 38
Prepared statement 40
B. Mark Kenney, secretary/treasurer, Caterpillar Americas Co., Peoria, IL 46
Machine sales have plummeted 46
Debt crisis has impacted our dealers 46
Trade financing 47
Prepared statement 48
Response to written questions of Senator Garn 85
James S. Cox, treasurer, International Westinghouse Electric Corp., Pittsburgh, PA 51
Impact on U.S. trade 51
Negative impact on marketing 52
Changes in investment strategy 52
Prepared statement 54
James Lee Adams, chairman of the board, the American Soybean Association, Camilla, GA 60
Brazilian situation 60
ASA's proposals 61
Prepared statement 62
Charles McKay, chairman, Florida District Export Council, president, Charles McKay & Associates, Inc., Miami, FL 65
Prepared statement 68

Page
Charles McKay, chairman, Florida District Export Council, president, Charles McKay & Associates, Inc., Miami, FL—Continued
  Prepared statement—Continued
    Introduction 68
    The 1970's 69
    The 1980's 69
    A look toward the 1990's 70
    Factors against the U.S. exporter for the future 71
    Conclusions 71
Panel discussion:
  Debt servicing 73
  Tie between trade and debt 74
  Overvaluation of the dollar 76
  Export financing support 78
  20-year plan 79
  Internal economic reforms in Latin America 80

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

National Association of Manufacturers, June 1989, Issue Brief titled "Export Financing, Manufactured Exports and the Trade Deficit" 87
Draft study for the Eximbank Advisory Committee titled "U.S. Export Competitiveness in Developing Countries: The Tied Aid Credit Issue," by Ernie Preeg, Sept. 14, 1989 88
The United States-China Business Council's, April 1989, White Paper titled, "Mixed Credit Usage in China" 116

THE IMPACT OF THIRD WORLD DEBT ON U.S. TRADE

WEDNESDAY, OCTOBER 18, 1989

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10 a.m. in room SD-538, Dirksen Senate Office Building, Senator Paul S. Sarbanes presiding.

Present: Senators Sarbanes, Dixon, Shelby, Graham, Wirth, Bryan, Garn, D'Amato, Gramm, Bond, and Pressler.

OPENING STATEMENT OF SENATOR SARBANES

Senator **SARBANES**. The committee will come to order.

Today the Senate Banking Committee holds a hearing to examine specifically the impact of the Third World debt problem on U.S. trade with the developing world.

In many respects this has proved to be a very opportune time to hold these hearings because the morning papers contain articles on the increase in the trade deficit and the figures reported by the Commerce Department yesterday, in which the trade deficit in August increased by $2.5 billion over the July deficit, from $8.25 billion to $10.77 billion. This is an increase of 31 percent in the trade deficit and is actually the first increase in the deficit since May.

At the same time, the Department revised the July trade deficit figures upward from $7.6 billion to $8.24 billion. This monthly imbalance was the largest since last December when it was about at the same level. Although I should note that the trade deficit for the first 8 months of this year is still 7 percent lower than for the first 8 months of 1988.

At the outset, I want to acknowledge, although he's not yet with us but will soon be here, the efforts of my able and distinguished colleague from Florida, Senator Graham, who has emphasized the important aspect of the debt problem as it relates to our trade balances.

The Third World debt problem is most often viewed as a financial issue. Frequently overlooked is the very significant adverse ramifications which this problem has had for U.S. trade with the developing world. The need to conserve limited reserves of foreign exchange for debt service payments are caused by a sharp compression in the debtor country's import markets and therefore a sharp drop in U.S. exports to those markets.

A review of the statistics shows the severity and rapidity of that contraction. During the 1970's, for instance, U.S. trade expanded significantly with the 17 developing countries now officially designated by the World Bank as heavily indebted. Those countries accounted for just under 14 percent of U.S. merchandise exports in 1970. It was up to nearly 17 percent by 1981. But after the formal onset of the debt crisis, that share dropped below 12 percent and while it has risen maybe a point or so, it is still below the figure in 1970.

This problem is even clearer when market shares are translated into dollar terms. Latin America is a case in point. Throughout the 1970's the United States ran small but steady trade surpluses with the Latin American debtor countries. Our trade balance with these nations fell into deficit in 1982, a deficit of $3 billion rising to $13 billion in 1983, $16 billion in 1984. While there's been some gradual improvement over the past few years, the United States has continued to run a deficit with Latin America now about $9 billion despite the decline in the value of the dollar.

We also see a deterioration in the competitive trade position of the United States in the developing world when compared to other industrial countries. In 1981 the United States accounted for 38 percent of the imports that were being purchased by the highly indebted LDC's. By 1987, that share—in other words, imports purchased by the highly indebted LDCs—had fallen to 25 percent. Japan's share of such imports grew from 7 to 11 percent and the European community share expanded from 18 to 22 percent.

It thus appears that in the 1980's our principal trade competitors were able to use the sharp import compression caused by the debt crisis and the extreme overvaluation of the dollar to improve their position in the less developed country markets. Unfortunately for us, such an entrenched position once gained is not readily abandoned and over the past 2 years the expansion of U.S. exports have been far less in those highly indebted developing countries than in the rest of the world.

Clearly, this has important implications for employment at home. While estimates of U.S. job loss vary, there is no doubt it has been substantial. The Overseas Development Council puts the figure at over 1 million jobs in the 1980's.

In my view, the United States has a strong interest in seeing a timely and effective resolution of the developing countries' debt problem that will permit their economies to move on to a steady growth path.

Secretary Brady deserves credit for his initiative on this issue.

Hearings in this committee have focused repeatedly on the complex challenges posed by the debt problem to world economic growth and financial stability, to the standard of living and to democratic institutions and economic reform in the affected countries.

Today we focus on the impact of the problem on U.S. trade. We are very pleased to have with us this morning as our lead witness an able Secretary of Commerce, Secretary Mosbacher. I believe this is the first time that a Secretary of Commerce has testified in Congress on the important question of Third World debt and its consequences for U.S. trade.

The Secretary will be followed by a distinguished panel of witnesses representing some of the major U.S. companies which export to the developing world. Fred Jones, treasurer of Combustion Engineering, Mark Kenney, secretary/treasurer of Caterpillar Americas, James Cox, treasurer-international of Westinghouse Electric Corp., James Lee Adams, chairman of the board of the American Soybean Association, and Charles McKay, chairman of the Florida District Export Council.

[The complete prepared statement of Senator Sarbanes follows:]

PREPARED STATEMENT OF SENATOR SARBANES

Today the Senate Banking Committee holds a hearing to examine the impact of the Third World debt problem on U.S. trade with the developing world. I want to begin by thanking my distinguished colleague from Florida, Senator Graham, for his leadership in calling attention to this important aspect of the debt problem. Indeed, today's hearing grew out of our earlier conversations on the subject, and has benefited from his advice and concern.

The Third World debt problem is most often viewed as a financial issue. Often overlooked is the very significant adverse ramifications which the problem has had for U.S. trade with the developing world. The need to conserve limited reserves of foreign exchange for debt service payments caused a sharp compression in the debtor countries' import markets, and therefore a sharp drop in U.S. exports to those markets.

A brief review makes clear the severity and rapidity of that contraction. During the 1970's, U.S. trade expanded very significantly with the seventeen developing countries now officially designated by the World Bank as "heavily indebted." Those countries accounted for just under 14 percent of U.S. merchandise exports in 1970 but nearly 17 percent by 1981. After the formal onset of the debt crises that share dropped below 12 percent and although it has subsequently risen somewhat it remains below 13 percent—that is, less than in 1970.

The magnitude of the problem becomes even clearer when market shares are translated into dollar terms. Latin America is a case in point. In the 1970–81 period, the United States ran small but steady trade surpluses with the Latin American debtor countries, with the surplus reaching a peak of $6.3 billion in 1981. Our trade balance with these nations fell into deficit in 1982, with a deficit of $3 billion in that year, rising to $13.2 billion in 1983 and $16.1 billion in 1984. While there has been some gradual improvement over the past 5 years, the United States has continued to run a deficit in Latin America despite the decline in the value of the dollar and has been unable even to return the merchandise trade account to balance.

We also see a deterioration in the competitive trade position of the United States in the developing world when compared to other industrial countries. Whereas in 1981 the United States accounted for 38 percent of the imports purchased by the highly indebted LDCs, by 1987 that share had fallen to 25 percent. By way of contrast, over the same period Japan's share of imports grew from 7 percent to 11 percent—that is, by more than 50 percent—while the European Community's share expanded from 18 percent to 22 percent.

It appears that in the early 1980's our principal trade competitors were able to use the sharp import compression caused by the debt crisis, and the extreme overvaluation of the dollar which occurred during that period, to improve their position in LDC markets. Unfortunately for the United States such an entrenched position, once taken, is not readily abandoned. Over the past 2 years the expansion of U.S. exports has been far less in the highly indebted developing countries than in the rest of the world.

In addition, the deterioration in U.S. trade relations with the developing world as a result of the debt crisis has had important implications for employment at home. While estimates of United States job loss vary, there is little doubt that it has been substantial. One estimate by the Overseas Development Council puts the figure at over 1 million jobs in the 1980's.

The United States has a strong interest in seeing a timely and effective resolution of the developing countries' debt problem that will permit their economies to move to a steady growth path. Secretary Brady deserves credit for his initiative on this issue.

Hearings in the Banking Committee have focused repeatedly on the multiple and complex challenges posed by the debt problem—to world economic growth and financial stability, to the standard of living and to democratic institutions and economic reform in the affected countries.

Today we focus on the impact of the problem on U.S. trade. We are pleased to have with us this morning Secretary of Commerce Mosbacher. This is, I believe, the Secretary's first appearance before the Banking Committee and the first time that a Secretary of Commerce has testified in Congress on the important question of Third World debt and its consequences for trade.

We are fortunate also to have a distinguished panel of witnesses representing some of the major U.S. companies which export to the developing world—Fred R. Jones, Treasurer, Combustion Engineering; B. Mark Kenney, Secretary-Treasurer, Caterpillar Americas; and James S. Cox, Treasurer-International, Westinghouse Electric Corporation. This panel will also include James Lee Adams, Chairman of the Board of the American Soybean Association, who will comment on the impact of the debt problem on U.S. agricultural exports; and Charles McKay, Chairman of the Florida District Export Council, who can comment on the consequences of the debt problem for smaller U.S. exporters.

Senator **Sarbanes**. Mr. Secretary, before I turn to your statement, I will turn to my colleagues for any opening statements they may have. Senator Garn.

Senator **Garn**. Thank you, Mr. Chairman.

In the interest of time, I will just ask unanimous consent that my statement be placed in the record and then just make one brief explanation and apology. Mr. Secretary, I've looked forward to your testimony and the other witnesses, but due to the earthquake last evening one of my other jobs is a member of the Appropriations Committee and HUD independent agencies which have jurisdiction over FEMA and I'm going to have to leave and go to some meetings to see what adjustments we may have to make in our funding level for FEMA as a result of that. So I apologize for having to leave but look forward to reading your testimony.

STATEMENT OF SENATOR GARN

Mr. Chairman, I want to welcome Secretary Mosbacher and our panel of industry witnesses here this morning to discuss the problem of international debt and its effect on U.S. trade.

In the early 1980's when major Third World governments were unable to service their foreign debts, the international community faced a financial crisis. In 1989, Third World debt is no longer a threat to the stability of the international financial system but it continues to present difficulty for U.S. exporters.

United States exports to Latin America will not get back on a growth track until Latin governments take the steps necessary to restore sustainable growth to their economies. We can best help by maintaining open markets for their exports.

In this difficult climate, U.S. exporters face the added challenge of unfair foreign financing competition. We must work to eliminate the trade-distorting impact of foreign export subsidies and tied aid credits. To that end, I am hopeful that the Eximbank amendments recently reported by the committee and passed by the Senate will become law.

Again, I welcome the witnesses and am looking forward to hearing their testimony.

Senator **Sarbanes**. Senator Dixon.

Senator **Dixon**. Mr. Chairman, thank you very much. I will place my statement in the record.

I am delighted to see Mark Kenney, the secretary/treasurer of a great company, Caterpillar of Illinois, here.

STATEMENT OF SENATOR DIXON

Mr. Chairman, I want to commend you for initiating this morning's hearing. I would like to make a few remarks, but first I want to acknowledge Mr. Mark Kenney, secretary/treasurer of a great company, Caterpillar, from the great State of Illinois. Welcome, Mr. Kenney. I am pleased you can be with us today.

Senator Sarbanes, this past March, when the Brady debt proposal was unveiled, you scheduled an International Finance Subcommittee hearing. At that hearing I said that the debt crisis is no longer just a financial problem; it is now a foreign policy problem and a trade problem. Today, we must face squarely the fact that the debt crisis is not just a developing country problem; it is an American economic problem of serious proportions.

Developing countries in the 1970's were our fastest growing markets for exports. Today we run trade deficits with these same countries. The testimony of today's witnesses will quantify this cost to America of the continuing international debt dilemma.

Too often in politics, hidden costs get lost, slow deterioration gets ignored, and structural cracks get papered over. The testimony of our witnessess today says the hidden costs of the debt crisis are ominously high; the deterioration in our exports injurious; and the fundamental effects on trade debilitating to our economic leadership in the world.

The costs to debtor countries are, of course, far greater. But, perhaps, focusing—as we do today—on the costs at home will ignite our ingenuity and strengthen our political will to work out a lasting solution to the debacle of international debt.

Senator **Sarbanes**. Senator Gramm.

OPENING STATEMENT OF SENATOR GRAMM

Senator **Gramm**. Mr. Chairman, like Senator Garn, I've got to charge off to a budget reform meeting. When we reform the budget around here the budget process almost always costs the taxpayer money.

I would like to say, however, that I think it's very easy to let this discussion drift into absolute total nonsense. It was very easy when we were making a lot of loans that are now not going to be paid back to sell goods in the Third World.

This idea that if some way we could go back to that era we could sell a lot more goods draws to my mind an analogy that our distinguished Secretary of Commerce will understand, and that is if we could go back to the S&L balloon days in Texas of the mid-1980's, we could build a lot more buildings and a lot more houses. Both those statements are true. But the point is, we had a totally unsound basis of doing basis and the idea that we were able to sell a lot when we were making a lot of unsound loans does not in my mind mean that we ought to go back to unsound policies to subsidize exports.

If someone would forgive my mortgage today, I would be back in the housing market. You could encourage home building in the

District of Columbia and Texas by forgiving all my debt. And I think the analogy is perfect in terms of Third World.

Also, let me remind our colleagues here today that the whole focus of this hearing is on the merchandise trade balance. But there is another trade balance and that has to do with services. Interest payment on Third World debt is an export of the service industry. So every time we forgive that debt, every time it is not paid, that is a reduction in an American export and it happens to be in an area where I believe we have a comparative advantage.

Mr. Chairman, let me just conclude by saying the problem with Third World debt is the economic structure of the Third World. The only way this debt will ever be paid, the only way the Third World will ever have a sound financial structure, is if they adopt economic systems that work and the only economic system that works is economic freedom. So the problem in Mexico, the problem all over the Third World is they have economic systems that do not work and we can hold all the hearings, we can pass all the laws we want to, but until they restructure their economies they are not going to be able to pay their debt and simply forgiving that debt may produce a temporary relief, but unless there's reform nothing is going to change.

Senator SARBANES. Without wishing to engage the Senator, I would leave two observations with him as he departs.

One is we have Mr. Fred Jones, treasurer of Combustion Engineering, on the next panel simply because we want to get—that's an engineering services company and we want to get from him a testimony about the service sector. I agree that there's been a shift and it's important and that panel has been designed not only to address merchandise trade but also to consider services. And I commend to my colleague Mr. Jones' statement, which is a very forceful presentation with respect to the services sector.

The other point I would like to leave with him to consider is that even with the sharp import compression that's taken place in these lesser developed countries, one of the things that has happened in the 1980's is that the share of imports taken by those countries has shifted markedly away from the United States and in favor of Japan and the European community.

So leaving aside the broader point which the Senator has made and which he's made on other occasions, the fact remains that within the current context we still are being squeezed out of those markets compared to our major industrial competitors. That it seems to me is worth thinking about.

Senator GRAMM. Mr. Chairman, let me respond very briefly. To the extent that the Japanese and other countries are extending easy credit—and I don't know whether they are or not—but to the extent that they are to get access to these markets, so far as I'm concerned they are welcome to them. If you give people money to buy your goods, that is false economy in my opinion. If you help promote trade relations where they can afford to buy your goods, that makes them and you richer. That's basically my point, Mr. Chairman.

Senator SARBANES. Senator Shelby.

Senator **Shelby**. Thank you. Mr. Chairman, I have an opening statement I'd like be made part of the record and I have one short comment because I came here to hear the Secretary.

STATEMENT BY SENATOR SHELBY

Mr. Chairman, first let me commend you for scheduling this hearing. The impact of LDC debt on the U.S. trade deficit is an integral aspect of both trade and LDC debt policy. I would like to join with my colleagues in welcoming Secretary Mosbacher, as well as the other witnesses, and thank them for taking the time to appear here today.

We usually address the LDC debt issue focused on the consequences to the most obvious constituencies—the commercial banking system, and ultimately the deposit insurer, and creditor government agencies. However, LDC nations import more than a third of U.S. exports, thus inextricably linking the economic strength of debtor nations with our own. The heavy debt burdens on Third World nations and their subsequent inability to import as many foreign goods, has made a significant impact on the U.S. trade deficit. Austerity measures intended to restrain domestic economic demand and reform the debtor economies have only compounded the problem and resulted in a steadily rising U.S. trade deficit with debtor nations.

This in itself is not wrong. While I am very concerned over the size of the U.S. trade deficit, I support efforts in debtor nations to implement economic reforms and I recognize their need to impose restraints on imports. However, I am concerned that during the same period of time that United States exports to debtor nations have dropped, there has been a significant increase in imports from Japan and EC nations. Simultaneously, while exports from LDC nations to the United States have increased significantly, LDC exports have remained fairly constant with Japan and even fallen slightly to EC countries.

From the debtor nation's perspective, exports are virtually the only way to secure the necessary foreign exchange to service debt obligations. Because a high proportion of LDC debt is owed to U.S. banks, are of commensurate importance. I am concerned, however, that exporters in Japan and EC nations may be receiving substantially more assistance from export development agencies than United States exporters. I believe that this policy could be penny wise but pound foolish in the long run, as our foreign competitors develop greater market shares in LDC nations. As most businessmen know, it is considerably easier to maintain, rather than regain, market share.

Today's witnesses have the ability to better inform us on this issue and I look forward to their testimony.

Thank you, Mr. Chairman.

Senator **Shelby**. Mr. Secretary, when you get into your remarks on the record and off the record, prepared or extemporaneous or whatever, there is a growing concern and it's already been alluded to that a lot of the exporters to the areas in Latin America and Japan, E.C. and so forth are getting a lot of assistance from their governments somewhere and I know we've had some testimony before this committee earlier a month or so ago that this is really leaving a lot of our businesses in the lurch and if that's true, then we're going to have long-term problems even if the trade continues to pick up in Latin America. When you get into your remarks, I wish you would touch on that.

Thank you, Mr. Chairman.

Senator **SARBANES**. Senator Bond.

OPENING STATEMENT OF SENATOR BOND

Senator **BOND**. Thank you, Mr. Chairman.

I'm very pleased that we're holding the hearing today to explore the problem that excessive debt has created in terms of our sales to less developed countries.

As I've said many times, if the United States is to maintain its position as the preeminent world economy, we must increase our exports and participate more in the world economy. I believe it's important that this committee do everything in its power to find ways to remove obstacles to exporting, to make it easier for U.S. businesses to compete overseas.

One of the greatest barriers to increased U.S. exports in recent years, as has the chairman noted, been the crushing debt accumulated by our neighbors in Latin America. These countries which historically have been strong U.S. trading partners have been forced to divert the bulk of their capital to debt service, a point which has meant a crushing blow to U.S. exporters, although as Senator Gramm has pointed out, this is an export of services when they service the debt.

We do need to search for ways to ease the debt burden. Just as important, however, we need to be sure that the American exporters are in a position to be competitive in the LDC markets once the debt situation begins to ease. We all know that in recent years we've seen European and Asian interests moving into Miami, the Caribbean, Latin America, with the stated purpose of developing new markets for their products. We have to be careful not to cede permanently our dominance of the Latin American markets to these new competitors. It was very telling in testimony by Mr. Armenian of Westinghouse just about a month ago in this committee which noted that the percent of bilateral foreign aid going to capital goods projects by major donor nations included a figure of 45.8 percent by the Japanese, with other countries like Denmark at 33, Norway at 22, and the United States at 2.3 percent. These figures came from Mr. Prague, a senior fellow at CSIS.

I am delighted to note in your testimony, Mr. Secretary, you refer to the need for competitive financing on capital projects. I think that's extremely important. The United States has to be providing competitive financing through the Export-Import Bank. We need to ensure our development funds are going to programs that not only help the LDC's develop their economies—and I would concur with Senator Gramm on that point particularly—but also ensure that U.S. firms are there building the infrastructure.

Finally, we need to provide competent assistance, counseling to businesses who want to sell overseas. I feel very strongly, Mr. Secretary, this means strengthening our U.S. and foreign commercial service and the other agencies throughout the Government that provide exporting assistance and trade leads. I know that you have indicated again that you have specific programs in mind. We'll look forward to hearing about those. We can talk about the barriers to exports until we're blue in the face, and we usually do around this place, but we need to discuss them. We need to work to remove those barriers, but it's just as clear that until we are prepared to take the steps necessary to ensure that our exporters are ready to tackle foreign markets once barriers are removed we're going to continue to lose them to the Japanese, the Europeans, and the Koreans.

I thank you, Mr. Secretary, for coming before us. I look forward to hearing your comments.

Senator SARBANES. Thank you very much, Senator Bond.

Senator Wirth.

OPENING STATEMENT OF SENATOR WIRTH

Senator WIRTH. Thank you, Mr. Chairman.

Mr. Secretary, I'm glad you're here and you have to endure statements and I suppose conflicting interpretations from Members of the Senate about what's going on.

It's my own view, Mr. Chairman, that we in the United States are finding ourselves in deeper and deeper trouble, as we look around the world and start talking about the structural problems that exist in Brazil and elsewhere. What we ought to be doing is looking in our own backyard at our own enormous structural problems.

We have an alleged $100 billion deficit. The fact of the matter is that our domestic deficit is about $230 billion if we stop the fiction of using Social Security and other trust funds and talk about the honest size of the deficit.

Well, if we are purchasing $230 billion more, we are consuming $230 billion more than we have, the problems that that's creating in our international trade situation are staggering. And we see it with this eroding trade question over and over and over again.

We also see it, Mr. Chairman, in the size and scope of the interest that we're paying. By 1992, at the time the European Market comes together, by 1992, interest on the debt is going to be the largest single item in the Federal budget—the largest single item in the Federal budget—bigger than defense, bigger than entitlements, and we merrily go along with this enormous set of structural problems and talk piously as if the United States is in the position that it used to be around the world. We will never be unless we address our problems right here at home.

Now we are putting all kinds of pressure on the Latin American countries, for example, at a time when Europe is coming together and Japan is dominant more and more in the Pacific, our own markets in our backyard are eroding. It seems to me, Mr. Chairman, that the issue in front of us is very clear—it is time for us to stop assuming business as usual and start asking for the administration's leadership on what we're going to do about these very fundamental structural problems. To play around on the edges is no longer adequate. It is no longer adequate to pretend that we can knock down a couple of trade barriers or whatever. That's not the fundamental issue. The fundamental issue is our enormous overconsumption right here in the United States and how that spills out elsewhere.

You have to listen to all of this, I know, Mr. Secretary, but that's the stuff of the debate up here and I suppose politics start in indignation and I think a lot of people are becoming thoroughly indignant about the erosion of America's position around the world and our own inability to address our structural problems here. We're looking to all of you for what leadership is going to come out of this administration.

Thank you, Mr. Chairman.

Senator **Sarbanes**. Thank you. Senator D'Amato.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'**Amato**. Thank you, Mr. Chairman.

I am looking forward to hearing from Secretary Mosbacher. I think that it's an oversimplification—I agree with much of what Senator Wirth has indicated—to suggest that the U.S. bank debt is a primary cause of the decline of the trade between the United States and Latin countries. That oversimplifies the problem of the Latin American economies, many of which are the result of bad policies—and we could go into the political instability which does not lead one to keep capital in these countries and that's why we see capital flight. As a matter of fact, if we keep making moneys available without there being a climate of stability, the dollars are going to continue to be sent right out of these countries. That's what's been taking place.

I think Senator Gramm's remarks bear some weight, but I'm very much interested in hearing Secretary Mosbacher. We've got to take care of some basics here in this country before we attempt to assess the blame for these problems in South America and just laying them as it relates to this enormous debt that they have and saying that's the reason and debt forgiveness is going to change things—that's not going to change anything, Mr. Chairman, in my opinion.

I welcome the Secretary and I look forward to hearing him.

Senator **Sarbanes**. Senator Bryan.

Senator **Bryan**. Thank you very much, Mr. Chairman.

I look forward to hearing Secretary Mosbacher's testimony this morning and hearing from him what the administration's game plan is and how we're going to reverse our declining fortunes in South America and other parts of the world and I reserve my time for questions following his testimony.

It's nice to have you with us, Mr. Secretary.

Senator **Sarbanes**. Thank you very much.

Mr. Secretary, we are prepared to hear from you. We look forward to your testimony.

STATEMENT OF ROBERT MOSBACHER, SECRETARY, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Secretary **Mosbacher**. Thank you, Mr. Chairman.

It's a pleasure to be here. I would like to file the written statement as part of the record and just make a few comments if I may.

Senator Sarbanes. The full statement will be included in the record.

Secretary Mosbacher. I wanted to both respond a bit to some of the very cogent comments made by you, Mr. Chairman, and the other Senators, but I'd like to first list a few of the things that I think are important for Latin America to do and a few things that are the responsibility of the United States.

LATIN AMERICA MUST OPEN THEIR MARKETS

First, I think—and in this area there's been remarkable progress over a short period—that Latin American countries must open their markets and open their nations for investment. We see this beginning to happen in many, many areas, led by Mexico, Argentina, and others.

We must, of course, encourage them and they must encourage their citizens to return that flight capital that Senator D'Amato and others touched on. This is important not only because it's estimated that up to $250 billion has flown out of Latin America in capital, but also because it obviously would be a show of confidence to their own people, which would then encourage others, particularly the United States, to come in with investments in other areas.

ECONOMIC AND POLITICAL STABILITY

There has also been great progress in South and Latin America in movement toward economic and political stability. There are still some countries that haven't progressed very far, but there are some which are on the verge of total openness and political democracy has spread a great deal, and economic openness is following.

Debt restructuring, of course, has been the center of the Brady plan. As Senator Gramm said, by itself, debt restructuring is any answer. But it helps in a jump-start situation and I think it's important in these cases, when combined with economic reforms, political reforms and free trade agreements, and open investment.

Finally, there must be—and this has been slow in coming—better protection of intellectual property rights in Latin America. We've seen some countries moving in the right direction. But we have not seen frankly enough of it.

On our side, on the U.S. side, we need to start thinking longer term in our policies with Latin America. Having only been in Washington a little over 9 months I am somewhat appalled when I look back over the policies—the push-pull, the start and stop in Latin America—over the years, even decades. Establishing longer term policies is an important step we must make.

RESTRUCTURING OF LATIN AMERICAN DEBT

From our standpoint, pursuing the Brady plan, helping the restructuring of Latin American debt with the proper followup that I mentioned earlier is an important thing for us to do. We also need additional cooperation from our private sector banks and involvement with the Eximbank. Although we are not in any way endorsing tied aid since we'd like to see the rest of the world move away from this practice, as long as it's part of a competitive aspect we have to look at it realistically.

When I talk about government involvement, the Agency for International Development [AID] has been involved and our own Department of Commerce's U.S.-Foreign Commercial Service have been major players and we continue to teach our companies how to export to Latin America and match our products with potential customers in Latin America.

We also need to talk about our structural needs in this country. There's no doubt that that comes into it. Frankly, without getting into the debate on it, the capital gains changes that we're talking about and want and are pushing for in the administration have great ramifications as far as thinking long term, creating jobs, and moving toward a position where companies can grow and be able to do better exporting. One of the things we are doing in the tax area is seeking a permanent research and development tax credit. We must also move toward improving quality. Besides teaching people to export, the quality of our products—there's no doubt about it—has to be an important part of the equation. Finally, we are all involved in the quest to improve our educational process.

Let me touch for a moment on Mexico itself because I think many of us hope that Mexico will be the first olive out of the jar leading to much more help in Latin America.

In Mexico, we—particularly those of us who live in Texas and other areas that are close neighbors to Mexico—have seen just a few years ago not only a terrible economic situation but a very shaky political situation. We now see new leadership that is extremely well educated, young, vigorous, from President Salinas through Jaime Serra, who's their Commerce Secretary, my counterpart, to Secretary Pedro Aspe, the Finance Minister. We've seen them actually pursue what they said they would do. In my case we have had many meetings with Secretary Jaime Serra. We've had subcabinet meetings with their people in the United States. We reviewed their regulations. They are truly moving toward opening their markets and removing their trade barriers and these have actually been set into regulations, rules, and in some cases, laws.

You also see that they have an inflation rate that has gone down considerably. It's still a lot higher than they want or we would accept, but it's below 20 percent and moving down. They told us a few weeks ago that in the last couple of months it has been about 1.1 percent a month, which is down around 13 or 14 percent a year.

We think that this could lead eventually to a free trade agreement with Mexico such as we have with Canada. We've got a lot of steps to take before we get there on both sides. We've got different backgrounds, different cultures, but certainly the Brady debt reduction plan in Mexico is working well. It has removed Mexico's need to be paying out money that's sorely needed right now to build its ability to be a better trading partner and to build a better infrastructure.

The CBI, the Caribbean Basin Initiative, has only been moderately successful but I want to assure this committee that we at Commerce and the administration are certainly dedicated to its ongoing values and improving it and we are doing several things to build it up. Rather than go into details, I'd be glad to try to answer any questions, Mr. Chairman.

[The complete prepared statement of Secretary Robert Mosbacher follows:]

STATEMENT OF SECRETARY ROBERT MOSBACHER

Mr. Chairman and Members of the Subcommittee:

I greatly appreciate the invitation to testify before your subcommittee today. Senator Sarbanes, in his letter of invitation, asked me to discuss the impact of the Third-World debt problem on U.S. exports and the gains our exporters can achieve if significant progress is made in resolving the problem. These are vitally important issues--for the Department of Commerce, the Congress, American business, and the nation--and I welcome the opportunity to explore them with you.

In accordance with your invitation, I will focus on Latin America, which accounts for about 40 percent of U.S. exports to developing countries.

I will concentrate on a matter I consider absolutely vital: ways that the United States can boost its competitiveness in Latin America, as the United States must if it is to take advantage of opportunities that will flow from successful implementation of the Administration's new debt strategy, known as the Brady Plan. I will also outline the ways in which we expect the Brady Plan to benefit both Latin America and U.S. business.

The debt crisis, since it erupted in 1982, has hit U.S. exports hard. The reason is that Latin American debtors, in order to attain trade surpluses essential to restoration of their creditworthiness, drastically cut their imports. One result was a severe drop in U.S. exports to the region. Not until last year did U.S. exports to Latin America again reach the 1981 peak.

Estimates of the amount of exports to Latin America that the United States "lost" depend on the assumptions made. If you assume, for example, that, without a crisis, U.S. exports would have grown 5 percent a year from the 1981 level, actual exports fall $130 billion short of what exports would otherwise have been in 1982-88. Even if you assume that the 1980-81 levels of imports were abnormally high, using the more moderate assumption that, if a crisis had been avoided, U.S. annual exports would have remained at their average 1980-81 level, the cumulative loss is still substantial--a little over $50 billion.

The key point is that even the more moderate assessment indicates that Latin American debt difficulties have done major damage to U.S. exports. A $50 billion export loss translates into a substantial job loss.

Latin American countries have in fact been generally successful in generating substantial trade surpluses as part of their efforts to cope with their external debt problems. The United States has substantially contributed to their success in this regard. Indeed, among industrial nations, the United States has shouldered a disproportionately large share of the load in helping Latin America better its trade performance. Not only did our exports to Latin America drastically decline, but the share of Latin American exports accounted for by the United States rose from about a third in 1981 to about half in 1988. The U.S. trade balance with the region sharply deteriorated from a surplus of $3 billion in 1981 to a deficit of $18 billion in 1984. There has been an improvement since then, with the U.S. deficit with the region falling to $8 billion last year. The cumulative deficit in the 1982-88 period was about $85 billion.

The reduction in our trade deficit with Latin America owes much to a steady rise in U.S. exports since 1983. Thus, while the debt crisis cost us huge amounts of exports measured against pre-crisis totals, our exports have been recovering. Indeed, the share of U.S. exports in total Latin American imports has risen from about a third in 1981 to nearly half in 1988.

But the recovery in our exports to Latin America has not matched the rise in our overall exports. The share of our exports going to Latin America fell from 18 percent in 1981 to 13 percent in 1988.

The inhibiting effect on our exports to Latin America is only part of the debt problem. Numerous U.S. firms have a stake in Latin America via direct investment there, including most of the Fortune 500 companies. Total U.S. direct investment in Latin America at the end of 1988 was valued at $49 billion.

Interestingly, despite the discouragement of the debt problem, we are seeing our major competitors making large new investments in Latin America, particularly South America, and putting together very competitive packages to capture major projects in sectors where we have traditionally been pre-eminent. The Japanese in particular are stepping up their investments. For example, they are moving into Chile's mining sector and Venezuela's aluminum sector. France is pushing hard in Brazil's telecommunications sector. Italy is moving aggressively in Argentina. These moves suggest that other industrial countries are taking the long view, looking ahead to a brighter economic situation in South America.

U.S. firms with direct investment in Latin America are clearly vulnerable to adverse developments there. The negative impact of the debt crisis on U.S. direct investment in Latin America is strongly suggested by the slowing rate of growth of such investment in recent years. U.S. direct investment in Latin America grew at an annual average of nearly 12 percent in the 1970s but by only 3 percent a year from 1980 to 1988.

The Brady Plan--which has been endorsed by the other major industrial countries and welcomed by most LDC debtor countries--should materially help revitalize many Latin American economies. A key feature of the Brady Plan is that it emphasizes voluntary, case-by-case debt reduction for LDCs that implement market-oriented economic reforms. This approach also emphasizes specific measures to encourage foreign direct investment and repatriation of flight capital.

Debt reduction, when coupled with free-market economic policies and continued credit flows to LDCs, can do much to restore sustained growth in debtor countries. Moreover, the process can give an important boost to U.S. exports to and investment in Latin America.

The Brady Plan creates a "win-win" opportunity for Latin America and for us: To the extent that Latin America's debt service obligations can be reduced, there will be less pressure on these countries to run trade surpluses with the United States and other industrial countries. Latin America could devote less of their export earnings to servicing debt and more to imports to support domestic growth, enhancing opportunities for lasting economic recovery. The United States--as Latin America's primary supplier--can realize significant export gains.

Vigorous implementation of the Brady approach can also help to rebuild confidence in Latin American economies--thus enhancing prospects for the return of flight capital, new foreign investment, and renewed creditworthiness. Resulting improvements in business conditions would be a boon to Latin America, and give a big boost to the fortunes of the many U.S. company affiliates which operate in these countries. In Mexico, we already have seen a positive impact in terms of improved confidence and new investment as a result of market opening measures and prospects for significant debt reduction.

The bottom line is that the United States, as the world's leading exporter to Latin America and the main foreign investor there, stands to reap large benefits from the improved economic situation in the region that the Brady plan can help bring about.

This Administration is committed to shaping and implementing an aggressive business development strategy for all of Latin America, building on the Brady Plan. Mexico has a special place in this strategy. We welcome the systematic steps Mexico is taking to stimulate investment in its economy. This is a basic precondition for getting sustained growth in U.S. exports to Mexico.

We at Commerce are working with our Mexican counterparts on a series of business development and trade promotion initiatives that will generate mutual economic benefits. In mid-November, I will lead a business development mission to Mexico, consisting of a small group of senior U.S. company executives, to explore specific trade and investment opportunities in key growth sectors. A Joint Committee for Investment and Trade has been established to continue to identify opportunities, support the promotion of these opportunities, and cooperate in the coordination of business promotion events. In addition, Mexican Commerce Secretary Serra and I are planning a series of joint promotional conferences in selected U.S. cities to publicize new commercial opportunities with Mexico. We are confident that these activities will generate the publicity necessary to encourage U.S. firms to increase their marketing activities in Mexico.

In addition to these business development activities, we continue to operate the highly successful U.S. Trade Center in Mexico City. This facility enables hundreds of U.S. firms each year to enter the Mexican market, reach agreements with agents, and make direct sales.

This Administration also remains committed to the Caribbean Basin Initiative. The program, now in its sixth year, is promoting economic diversification and fostering growth in the region's non-traditional exports. This is creating needed new jobs. In addition, U.S. exports to CBI beneficiaries are increasing with the success of the program. U.S. exports increased by over 10 percent last year. This is one of the few regions in the world with which the United States enjoys a trade surplus. To keep the momentum of the program going, however, we do need expansion of the original CBI program. The Administration has been working with Congress on legislation to achieve this goal.

Beyond Mexico and the Caribbean Basin countries is the enormous potential market of South America. We need to have a better perspective on this. Remember, for all of its current economic problems, Brazil's GDP is equal to that of Mexico, Argentina, and Venezuela combined. Even after the losses in exports due to protracted debt and economic problems, five South American countries are in the top 40 purchasers of U.S. exports. This should encourage us to do more, and we must. There is a tendency to concentrate almost entirely on debt problems and to overlook business opportunities that are there.

We need to agree on what it will take both in the U.S. private sector and on the part of the U.S. Government and the Congress to ensure that our pre-eminent position in the Latin American market is not eroded. For as any business leader knows, once you're out of the market it's very hard to get back in, especially in Latin America.

As I mentioned, the U.S. share of Latin American imports has actually risen markedly in the last few years. But if we aren't vigilant, competitive inroads, particularly in high tech industries, can erode our share of the market.

Next summer, I intend to lead a top-level business development mission to several countries of South America. I believe that this will bring home to U.S. business the opportunities that are emerging in the region. As these countries respond to the need to open up their economies, give a greater role to the private sector, and reduce often intolerably high government debt/GNP ratios, U.S. firms must be prepared to move quickly to take advantage of selective opportunities presented. This Administration is pledged to support that effort, and I know that Congress will give support, too.

To compete effectively in the Latin American market, U.S. firms must not only seize the initiative. They must also have the tools. For capital projects, which offer the biggest opportunities, this means competitive financing. We will need to monitor the situation carefully in Latin America, particularly in key sectors such as telecommunications, energy and transportation.

In these days of constrained U.S. resources, we need the support of Congress for trade promotion and financing programs to strengthen our competitive position in Latin America. We also need the support of Congress in enacting President Bush's domestic economic agenda. This would insure continuation of the record peacetime U.S. economic expansion, with declining real interest rates and stable inflationary expectations. As members of this Subcommittee know quite well, Latin American economic performance also depends significantly on the health of the U.S. economy. Our efforts to decrease the fiscal deficit via cutbacks in Federal expenditures as a percent of GNP, to lower the capital gains tax for long-term investments and to make the Research and Experimentation tax credits permanent, would enhance U.S. economic performance. A vibrant U.S. economy is, in the Administration's judgment, another critical ingredient for improving our competitive position in the region, and for assisting in the economic recovery of Latin America.

Mr. Chairman, I know we still face a difficult environment in Latin America. However, during my recent visits to the region I have been impressed and heartened by the economic adjustment efforts being undertaken in several countries such as Mexico, Venezuela, Uruguay and Argentina. As long as these efforts continue, I am optimistic about the region's long-term recovery and determined that we take advantage of it.

Thank you.

Senator **Sarbanes**. Well, thank you very much, Mr. Secretary.

We've been joined by Senator Graham of Florida and at the outset I acknowledged his contribution to focusing on this relationship between the Third World debt problem and U.S. trade and we have in fact benefited both from his concern and his advice on structuring this hearing. The others have made their opening statements. If you have something you'd like to say at the outset I will yield to you at this point.

OPENING STATEMENT OF SENATOR GRAHAM

Senator **Graham**. Thank you very much, Mr. Chairman. I apologize for my late arrival. I will submit for the record my opening statement. I very much appreciated and benefited by the comments of the Secretary and will have some questions for him when it becomes my question time.

The context of this hearing is that the issue of the economic circumstances in the Third World and particularly Latin America is a very direct impact on the U.S. economy. We have not adequately, in my opinion, focused on the consequences that have befallen U.S. agriculture and U.S. industrial production as a result of the inability of these nations to be major customers for our products.

In earlier hearings of this committee I have been asking the question—and I intend to ask that question of the Secretary—what should be the indicators of progress toward the economic ills of the Third World in general and Latin America specifically? In a previous hearing the Chairman of the Federal Reserve Board gave several indicators that he monitors for that. One of those was the issue of the net inflow of capital. Had the circumstances in Latin America reached such that there was an environment that encouraged private capital inflow?

I have developed a chart, Mr. Chairman, which I would like to submit for the record of this hearing and would ask that this committee keep as an ongoing report card of progress. I would like to say that that report card will give us substantially less than an F on that standard.

Just to cite two numbers, in 1980, the net inflow of capital to Latin America and the Caribbean was $3.879 billion. The latest year in which numbers are available, which is 1987, there was a reversal of that, a net outflow of $12.701 billion. So in a period of 7 years we have reversed in a ratio of almost $16 billion the capital flow into Latin America and the Caribbean. I think a devastating statement as to the lack of confidence in the economy of that important region and a very negative commentary on U.S. economic policy if one of its objectives is to restore, enhance and improve the level of economic confidence in that region.

I look forward to pursuing these questions with the Secretary and with the very distinguished panel that will follow. Thank you.

[The complete prepared statement of Senator Graham follows:]

Prepared Statement of Senator Graham

Mr. Chairman, let me commend you for holding this very important hearing today on the impact of Third World debt on U.S. trade. The debt issue is a political and an economic issue. Today we look at the economic issue and hopefully economic solutions.

During the last decade the United States has failed to adquately address the debt problem which has been manifested in our domestic economy in several ways: Decreasing exports to Latin/South American countries; eroding our U.S. trade position with those countries; contributing to U.S. budget and trade deficits and negatively impacting our U.S. companies through employment layoffs, decreased profits, and riskier more expensive financing.

The United States has enjoyed a close trade relationship going back decades with out Latin and South American neighbors. We need to encourage economic reforms in both countries to renew the healthy trading relationship of the past by increasing lines of credit, encouraging greater allowances for imports on the part of the developed countries, encouraging additional loans from multilateral institutions for development of vital projects and providing guarantees from those institutions for new loans.

The economic modernization of the region, would have positive effects for U.S. private sector activities in the region, as well as for the countries and the United States. I look forward to the testimony today and thank all the witnesses for participation.

In sum: strong. healthy trade with our neighbors is in our interest. Not only is trade the foundation for jobs, but also the foundation for long-term political and economic stability.

NET TRANSFERS
(US$ millions)

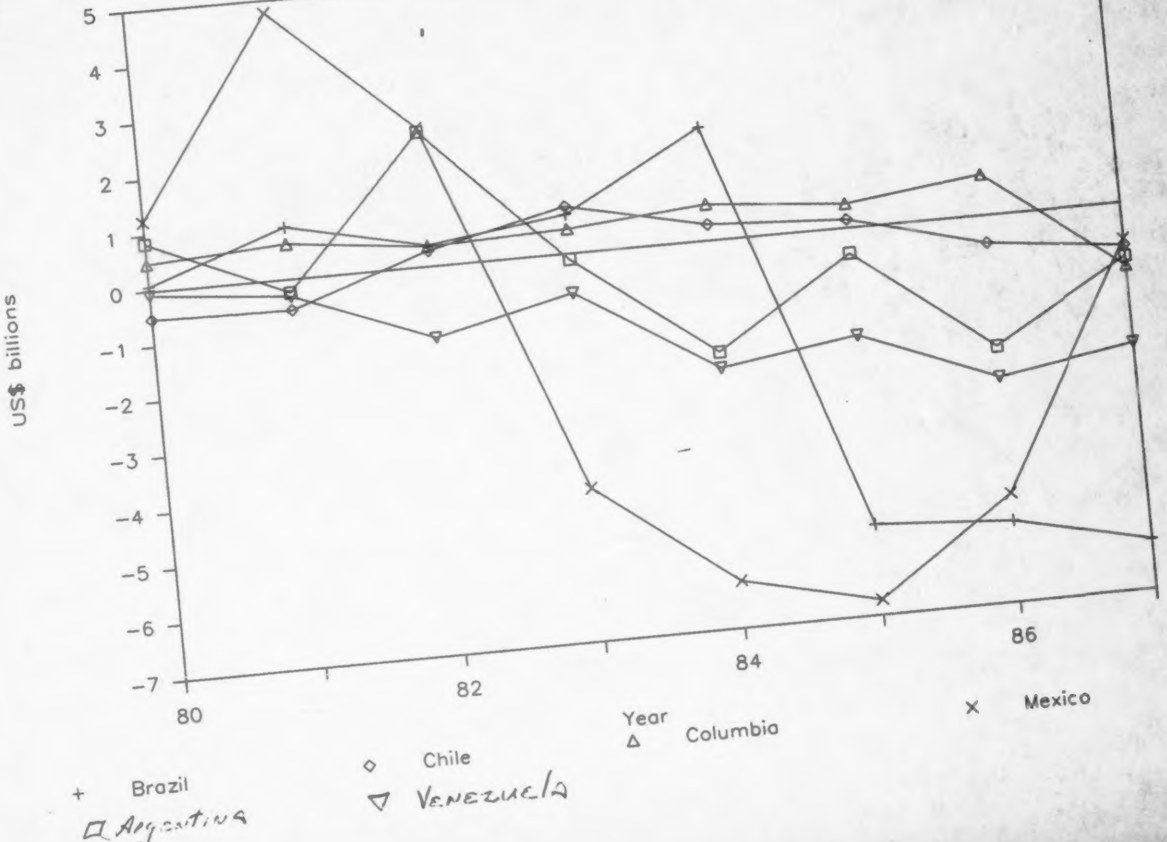
Net Inflow of Capital
- the Payment of Interest on Debt

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987
Latin America & Carribean	1,191	5,539	3,879	7,190	6,242	(1,283)	(6,515)	(14,048)	(15,582)	(12,701)
Argentina	18	(315)	852	(245)	2,428	(109)	(2,039)	(469)	(2,397)	(978)
Brazil	502	2,073	81	943	380	707	2,049	(5,373)	(5,539)	(6,102)
Chile	164	(219)	(517)	(565)	278	856	290	143	(508)	(785)
Columbia	133	147	487	641	359	443	657	438	739	(1,155)
Mexico	81	2,493	1,249	4,775	2,494	(4,246)	(6,158)	(6,722)	(5,048)	(668)
Venezuela	143	(310)	(84)	(311)	(1,295)	(721)	(2,327)	(1,971)	(2,951)	(2,554)

Source: The World Bank -- World Debt Tables 1988-89 Edition

LATIN AMERICAN COUNTRIES

Net Transfers 1980–87



Senator **Sarbanes**. We have also been joined by Senator Pressler and before I address my questions to you, Mr. Secretary, I yield to Senator Pressler for any statement he may have.

Senator **Pressler**. Thank you, Mr. Chairman. I'll be very brief and just welcome the Secretary and say that I also look forward very much to hearing the president of the American Soybean Association and others on how this Third World debt situation gets down on the farm, so to speak. It's something that affects every American, and I think it's something we have done a poor job of handling in the past. I may have some questions, for the witnesses.

Senator **Sarbanes**. In view of the number of members that are here, I think we will take a 5-minute first round and then have a second round to follow up on questions.

Mr. Secretary, I want to ask you about the trade figures that were reported yesterday because that's obviously the broader context in which we're considering the issue before us this morning.

The Wall Street Journal in a story this morning says:

> The surprising surge in the U.S. trade deficit raised fears that the Nation's export drive has stalled and caused new turmoil in financial markets. The merchandise trade deficit widened in August to $10.77 billion, the Commerce Department reported, a sharp deterioration from July's $8.24 billion and the largest deficit of any month this year. Exports fell for the second month in a row, while imports rose to a record.

The article later points out that not only was August's deficit far worse than July, but that the Government revised the July figure substantially in the course of releasing yesterday's figures from the $7.58 billion deficit it initially reported up to $8.24 billion.

This article says:

> The bleak trade report was played down by the Bush administration. Commerce Secretary Robert Mosbacher called the worsening trade figures disappointing after 2 very good months,

and goes on to say,

> But the figures reinforce the view of many private analysts that the improvement in the U.S. trade deficit has run out of steam. The figures today add further evidence to support the view that the improvement in the U.S. trade deficit is essentially stalled out at a level of about $110 billion annual rate. That's still an improvement over last year, but it leads one to conclude that basically we've gotten all the mileage we can out of past dollar depreciation and past marginal cuts in the Federal budget deficit.

There's sort of a difference in view and I'd like to hear a little more exposition of your own position with respect to these figures, which certainly give me a good deal of pause and concern.

Secretary **Mosbacher**. I certainly don't want to downgrade the concern that we all have that we have somewhere close to a $110 billion annual trade deficit. I think that we need to keep it in context both as to this month's release and the last year or two.

First of all, in the very short term, in this month compared to the past several months our exports are virtually flat. But they've come up a lot from last year and we would see that they will, I think, start back up to some degree over the next few months because we see that there's a surge of understanding about exports.

Imports did take a huge jump. There's some concern about that. However, the biggest jump by far was in capital goods and capital goods of course have at least the advantage of being used to create other goods that will be built in this country. So it's not all bad news in that respect.

Now looking at the longer term, as you will remember, if we're at $110 billion for the year which is frankly as good an estimate as we've been able to come up with, our trade deficit is still going to be between 7 and 8 percent less than last year when the deficit went down some 23 percent from the year before.

I do agree that we certainly have gotten all the mileage out of those other factors such as the change in the dollar rate and the cuts in the Federal budget deficit.

What we now need to concentrate on and what we should be looking long term anyway is the improvement in the quality of the goods and the improvement that we must make in teaching our companies particularly those that are middle size and smaller, companies to think export, that it's one big market out there.

VALUE OF THE DOLLAR

Senator **Sarbanes**. Well, given that there's been a rise in the value of the dollar against foreign currencies over the past several months, on what basis do you make the sort of optimistic projection that exports will go back up? These private commentators are all pointing to the fact that the rise in the value of the dollar against foreign currencies has increased the price of our products in overseas markets and hurt our competitiveness and that the stronger dollar has made imports more attractive by causing their prices to decline.

Do you think the dollar is currently overvalued as far as these trade concerns are at issue?

Secretary **Mosbacher**. Well, Mr. Chairman, I'm going to leave the dollar values up to Secretary Brady and others, but I would like to say that in the case of Japan where their yen value rose tremendously as the dollar dropped, they did not lose market share. They were willing to take a longer view. They were willing to take a smaller profit and if U.S. industry takes that view toward keeping its exports up, we will not see a loss either.

Now I don't know whether they will take the long-term view but in my mind they should. That would preclude losing market share with the fluctuations of the dollar and the yen.

Senator **Sarbanes**. Of course, our problem is regaining share. We lost it in the 1980's and these other countries picked it up, Japan in particular. Of course, as you point out, they're holding on to it. So we have a double problem. It's not simply holding what share we have, but regaining some part if not all of the share that we lost. And how are we going to be able to do that in the context in which the value of the dollar is once again on the increase?

Secretary **Mosbacher**. Well, I'm taking the circumstances as they are today and leaving aside whether the dollar is increasing or decreasing and saying that at today's value we should be able to hold on to share and continue to build our share of exports through greater knowledge and greater quality and greater ability, and particularly through companies, other than just the top range of the highest and biggest companies, getting into the export market in a bigger way.

Senator **Sarbanes**. Well, I see the red light is on. My time has expired. I yield to Senator Bond.

Senator **Bond**. Thank you, Mr. Chairman.

Mr. Secretary, as I indicated, you mention on page 6 of your written testimony that you're shaping an aggressive business development strategy for all of Latin America.

Any clues you can give us or ideas you can share with us on what you would like to have in that plan, in addition to the Mexico business development mission that you have stated there?

Secretary **Mosbacher**. As far as our aggressive business development plan?

Senator **Bond**. Yes.

AGGRESSIVE BUSINESS DEVELOPMENT PLAN

Secretary **Mosbacher**. Yes. Starting with Mexico which is our first effort or closest effort and one which in many areas, since the Brady plan is already in effect, has progressed further than most others, we are taking a group of leading CEO's of large, middle-size and smaller companies down to Mexico in the latter part of November. We have had meetings with the Mexican Government to formalize their trade opening and their investment opening initiatives. We think that both in trade and investment for the sake of the U.S. business community as well as for the sake of our neighbor, Mexico we can make additional steps.

We also think that part of that can be help from the Eximbank, part of it worked with the AID program, and the Trade Development Program at State, as well. Although the OPIC situation in Mexico is a little problematic because probably the Mexicans don't need any guarantees or at least they feel strongly they don't politically, I think there's room for the loan part of OPIC to work in Mexico. We need some cooperation from our own commercial banks, but I think U.S. business will be willing both to go in there as an investor and start trading with Mexico with these new regulations that are so much more forward looking.

Senator **Bond**. I certainly would agree with you that trade missions are helpful, having led and participated in a number myself, but I'm interested in the structural reforms. Do you think we ought to be providing more aid in the form of capital goods?

Secretary **Mosbacher**. Yes. Not, frankly, in the way of aid but in the way of investment. Maybe that's what you really meant. From my viewpoint, it will be helpful to them and to our business by selling capital goods or making investment with capital goods in Mexico for their industry to pursue.

Senator **Bond**. Providing subsidized assistance for those investments? Is that part of it?

Secretary **Mosbacher**. I think in many cases it does not need to be subsidized.

Senator **Bond**. To the extent it doesn't, that would be desirable. I mentioned in my opening remarks the problems that our businesses in Missouri and elsewhere have found when they seek assistance from the United States and FCS in their efforts abroad and it is the principal Federal agency. The Congress and the administration has severely cut the funding in recent years. As a result, many offices are understaffed. The CMIS computer system is not operating in a usable manner and there are many other problems that have been raised in the GAO and congressional studies.

What have you decided to do perhaps in your budget request or other operation decisions with respect to the United States and FCS?

Secretary **Mosbacher**. Well, for the United States & Foreign Commercial Service [FCS] we have requested that $6 million, which is a small amount, but is a very needed part of our original budget request be restored. It had been knocked out. We hope it will be restored because this at least moves us back to where we were. It still does not totally restore everything we need.

Senator **Bond**. You need about $15 million to get back, don't you?

Secretary **Mosbacher**. That's correct.

Senator **Bond**. Do you see this as a critical area? Are you willing to put a high emphasis on this?

Secretary **Mosbacher**. Absolutely, Senator. This is probably the most critical area that we have because of the multiplier effect. What we can do with the United States and FCS is allow American exporters to get into opportunities both competitively against Japan and other nations and to give us a better balance of trade in exporting. This is an extremely important initiative that United States and FCS is performing.

Senator **Bond**. I'm delighted to hear you say that, Mr. Secretary.

Mr. Chairman, I will relinquish the rest of my time. I apologize to the other witnesses but I've committed to go hear President Noh who offers a tremendous export opportunity for the United States as well, but I look forward to reading the testimony of the other witnesses. Thank you.

Senator **Sarbanes**. Senator Shelby.

Senator **Shelby**. Thank you, Mr. Chairman.

Mr. Secretary, I'm bothered a little bit by some of your written testimony, bothered in the degree that you're relying on the Brady plan to really work in Latin America. You know we had the Baker plan. It didn't work. Isn't this a Baker plan with a little modification where the administration is saying to the banks, "You take the hit. The sooner you do it, the better and that's going to improve everything." But the banks have been reluctant to take the hit and a lot of people, including this Senator, are doubtful whether the Brady plan is going to work in Latin America and other places of the world any better than the Baker plan which had a lot of publicity. It came out as the greatest thing to come along and nothing happened. Not much happened anyway. If this administration is relying on that to straighten out Latin America and start the goods flowing both ways, I think you've got some problems. I'd like to hear you comment on that. I know you're a loyal Cabinet Member to the administration.

THE BRADY PLAN

Secretary **Mosbacher**. Well, I agree that the Baker plan or Brady plan won't work——

Senator **Shelby**. Baker-Brady or whatever.

Secretary **Mosbacher**. Well, the Brady plan will not work by itself. It's just a part of the puzzle, but it's an important part.

In Mexico where we've seen it go into effect, it is a part of the overall plan which is opening up for investment and for trade that nation and freeing up money that would be paid in interest for investment of their own in their business which has helped their employment and has helped their inflation. It gives us an opportunity to both invest in Mexico and to trade with Mexico in a positive way. And I think it's an important movement.

Frankly, actually the banks will never take a hit. I've never seen a bank who's willing to take a hit and I don't blame them. That's not their business.

Senator **Shelby**. You wouldn't characterize the Brady plan as a bold, innovative plan that's really going to the crux of the matter there, would you?

Secretary **Mosbacher**. I think it's a very important step.

Senator **Shelby**. But not bold, is it?

Secretary **Mosbacher**. Well, I don't know. I think it's a good step. I don't know what the definition of bold is.

I remember when I was in school the history teacher talking about the bold step of one of our great allies after World War I, they just wrote off the debt to the United States. That was certainly a bold step, but I'm not sure I thought it was a very good step.

But this is an important step in the right direction.

Senator **Shelby**. And you pray it works?

Secretary **Mosbacher**. Yes, and I see evidence that it is working.

Senator **Shelby**. Well, we hope so.

Secretary **Mosbacher**. I see it in our work in Mexico.

Senator **Shelby**. Mr. Secretary, we talk about the obvious connection between the manufacturing sector in this country—not only Westinghouse and Combustion Engineering and Caterpillar, the people who are here today which are very important to all of us—but other companies that manufacture goods here to export. But how are they going to export if they can't compete on financing?

As you well know as the Secretary of Commerce, this is a very important aspect of business. If you can't finance it, I don't care what kind—it might be the best product in the world. And aren't the Japanese and the European market beginning to use a metaphor "eating our lunch" as far as the financing is concerned? I'd like to know what this administration is doing about it. Are they doing anything substantive about it? We've had the Export-Import Chairman before this committee and if we're going to play tough games—and trade is a tough game in the world when you're dealing with the EC and Japan and others—how are we going to compete if this administration is not going to commit itself to meeting the financing of any country in the world for our companies that want to export?

Secretary **Mosbacher**. Well, I certainly agree we need to compete, but I also feel that outbidding the other countries when we have lots of budget and deficit constraints in this country is not the way we prefer to go. I would say pursue what we've done with the OECD and other ways to cut out this tied aid and pursue normal, fair, free trade and free loan agreements where the particular deal on a case-by-case basis is what merits the loan, not a tied aid to get market share because then you keep bidding it up.

So I agree that we need to compete, but let's try to compete by bringing down the level of tied aid rather than raising ours.

Senator SHELBY. Mr. Secretary, we don't just need to compete. We've got to compete. If we don't compete in the financing end and the manufacturing end, we're not going to compete. And I just see us losing more and more market share. I know the Senator from Maryland has alluded to that, that once we lose this market, if we lose it to the Germans or the French or the Japanese, I can tell and you can too they are not going to be easily dislodged.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you, Senator Shelby.

Senator Wirth.

Senator WIRTH. Thank you, Mr. Chairman.

Am I right, Mr. Secretary, that there is, in your opinion, a very tight relationship between debt reduction or interest payment reduction say by Latin American countries and the ability of the United States to export?

Secretary MOSBACHER. Yes. I think there is, Senator. I think that debt reduction frees them up—not just by itself though. In other words, if we just let them off the hook to some degree with debt reduction without the other side of the coin, I think we'd be making a mistake.

Senator WIRTH. The other side of the coin being?

Secretary MOSBACHER. The other side of the coin being economic reforms in their countries and opening their markets: free trade and all that must go with it, political and economic reforms and free trade and investment—these are all part of the package.

STRUCTURAL REFORMS

Senator WIRTH. When you're meeting with your counterparts in the Philippines or in Mexico or in Costa Rica, the three areas where I understand we have begun the process of attempting to implement the Brady plan, when you talk to them about the other side of the coin, structural reform, do they ever say to you, "Well, what are you doing in the United States in terms of structural reform?"

Secretary MOSBACHER. They have mentioned that to me.

Senator WIRTH. What do you answer?

Secretary MOSBACHER. I answer by discussing our capital gains tax. I tell them about our quality awards, such as Malcolm Baldrige award. I answer them by emphasizing the education summit. I tell them about our efforts to cut both our trade deficit and our fiscal deficit. But remember, they realize perhaps more than we do that the problem has been primarily theirs. Why do you think we didn't have more trade with them and more investment in Latin America? It's because we and the rest of the world didn't have confidence in their system as it was. So they are moving toward opening up their markets.

Senator WIRTH. I'm not sure that I agree with you or that a lot of people agree that the problem is primarily theirs. We used to be in a dominant position where the United States could point to the successes in our own backyard and say you ought to be doing some emulation and all the discussions of the free market were very appropriate and so on. But now we've gotten ourselves, as I noted in my opening comments, into this extraordinary structural problem of a $230 billion deficit here at home which is causing enormous problems for us and making it very difficult for us to do the kinds of things that I think Senator Shelby was pointing toward in his good questions.

It's very, very hard for us to do it. It's a little bit like in the environmental world. We go down to the Brazilians and say to them, "Hey, why don't you stop cutting down your rain forest?" And they're now starting to catch on and they're turning around and saying to us, "Now wait a minute, what are you guys doing in your own backyard? Are you saying it's OK for you to cut down your rain forest but we can't do it here?"

It's the same sort of thing. We're going down there and saying reform the structure of your economy when ours is getting more and more and more out of control.

Secretary MOSBACHER. I think that's a good analogy, Senator, but just as in the trade and fiscal areas and in the education and quality area, which are problems, we do have initiatives, just as we do with the clean air initiative of the President. It's the same idea.

Senator WIRTH. I would suggest to you that in the areas you've been talking about, the capital gains tax, long term we're going to see our deficit going up as a result of that. I think everybody—almost everybody's estimates suggest that that's the case. In the education world, the President tells us what he wants to do, which is in fact to spend less money than Ronald Reagan was suggesting in terms of leadership and above, I believe, Mr. Chairman, 1/800th of the amount of money proposed to spend going on a manned mission to Mars.

I think that we have got to understand—and I'm talking as a Democrat. Leave that aside. We have got to understand that as we are attempting to deal with nations around the world and particularly in Latin America and have a relationship which is one based upon trade going both ways, they can't do anything without the debt relief and we're coming to understand that. They have to make some structural changes, yes. But it's very important for us to do that at the same time. I've made that point before but I think increasingly people are understanding that the smug position that the United States has taken for a long period of time is no longer adequate and it is time for us to really get on this and start being honest also about the size and scope of this deficit.

Just a final note. If in fact, Mr. Secretary, there is a direct relationship, as you suggested in your comments, between debt service and our ability to export, let me ask you, were you all involved in the formulation of the Brady plan?

Secretary MOSBACHER. No.

Senator WIRTH. Are you in a position from the Commerce Department to monitor the success of the Brady plan?

Secretary MOSBACHER. Well, I think now we're involved because it's part of the total package for our trade plan and overall trade and overall views of fiscal work with Latin America, which is what we're talking about primarily.

Senator **Wirth**. The more involved you are and the more kind of urgency that comes from the sense of American exporters which we're going to hear from our next panel and the relationship of that to the Brady plan, you all have to be integrally involved and I know you're starting to become that way, but it's very, very important.

Thank you, Mr. Chairman.

Senator **Sarbanes**. Thank you.

Senator Bryan.

Senator **Bryan**. Thank you very much, Mr. Chairman.

You focused a lot on internal difficulties within these Third World countries in terms of refinancing the debt and handling the debt, but I'd like to focus more narrowly.

UNITED STATES SHARE OF EXPORT MARKET HAS SHRUNK

Assuming that the market may have shrunk because of the difficulties that these economies faced, the record nevertheless reflects that if you look at our export share to Third World countries vis-a-vis the export shares in Japan and Western Europe, that our position from 1981 to 1987 has deteriorated. Would you agree with that premise, Mr. Secretary?

Secretary **Mosbacher**. Yes, there was some erosion of U.S. market shares. Of course, the whole pie has shrunk relatively.

Senator **Bryan**. I understand that. But aside from the question of the pie, whatever the pie is, we're getting less of it?

Secretary **Mosbacher**. Somewhat less, yes. I would say that Mexico is probably the exception to that.

Senator **Bryan**. Let me make sure. I want to get the record. I practiced law and I can understand weasel words when I hear them. I want to get the record clear on this. Our share has shrunk, is that not correct?

Secretary **Mosbacher**. With the exception of Mexico.

Senator **Bryan**. That's a fine statement. All right. Now I'd like to ask you why our share shrunk and theirs gained.

Secretary **Mosbacher**. Well, their shares gained. Their overall dollar value is relatively small and I'm sure there has been some tied aid to their gains.

Senator **Bryan**. Is that speculation on your part, Mr. Secretary, or do you in fact know that that is the case?

Secretary **Mosbacher**. I don't have the total numbers, but let me say I know of enough individual cases that I would say that that was the most probable cause.

Senator **Bryan**. You don't have to have a Ph.D. in economics or to be a rocket scientist when you look at these numbers, and our numbers have shrunk and theirs have gained—to ask the basic question which a lot of people are asking and that is, why, assuming that the overall market has shrunk and you've made that point—I think that's to be acknowledged—why does it appear that our principal trading adversaries, for lack of a better term—why are they doing better than we are? What policies are they pursuing or conversely what actions are we not taking that accounts for that even within a shrinking market?

Secretary **Mosbacher**. Well, I mentioned the tied aid. Then I would also say that we in this administration are paying more attention than perhaps any have in a long time to the Latin American problems and potentials and have probably had more meetings with Latin American leaders than any administration in a long time.

Senator **Bryan**. Other than what you believe may be tied aid are there any other reasons that you can offer to this committee for that deterioration in our position?

Secretary **Mosbacher**. No, other than the overall long-term approach that I mentioned before which is our quality problem, and I think that is undoubtedly a major problem that we've had in our international trade from a global standpoint.

Senator **Bryan**. In your prepared testimony you state on page 9, "To compete effectively in the Latin American market U.S. firms must not only seize the initiative but must also have the tools"—and you go on to comment on that. Are you suggesting, Mr. Secretary, that part of the fault may lie with American business, that they haven't been aggressive enough in pursuing these markets?

If that is indeed your conclusion, what as the principal cheerleader it seems to me for American business interests, what are you all doing about that?

Secretary **Mosbacher**. Well, I just said earlier that we are leading a group of top CEO's down there. We've had meetings with the leaders in several Latin American countries, starting with Mexico and Argentina, and Brazil and other nations, too, regarding their changing their intellectual property rights laws or opening their markets both from a trade standpoint and an investment standpoint. I think U.S. business frankly, because of our proximity, may know more about the problems of Latin America than others and has seen it as a very bad place to invest because of those reasons. I think that's turning around and I think in some cases maybe U.S. business has not been willing to take the long-term chance that others in other parts of the world have.

Senator **Bryan**. Mr. Secretary, one other part of your testimony on the same page it's indicated:

> In these days of constrained U.S. resources, we need the support of Congress for trade promotion and financing programs to strengthen our competitive position in Latin America.

My question to you specifically is what are you asking us to do to help? We want to be a part of the solution.

Secretary **Mosbacher**. Well, I think the help to the Eximbank was an important part of it. I think the trade development and OPIC legislation was an important part of it. I don't think the OPIC legislation has passed yet.

Senator **Bryan**. Anything else that you are suggesting to us that you need our help in?

Secretary **Mosbacher**. I really think at this point that we have seen such a dramatic turnaround. These are the areas where Congress can be most helpful.

Senator **Bryan**. Mr. Chairman, thank you.

Senator **Sarbanes**. Senator Graham.

Senator **Graham**. Thank you, Mr. Chairman.

I have several areas that I'd like to raise some questions. I'd like to begin with the evaluation of the Brady plan. I mentioned in my opening remarks that we have had some suggestions of how the Brady plan should be monitored. What are the factors that the Department of Commerce looks to to evaluate the success of the Brady plan particularly as it relates to U.S. exports to Latin America?

MONITORING THE BRADY PLAN

Secretary **Mosbacher**. Well, as you know, Senator, the only place that it is now virtually fait accompli is Mexico and we will be over this next year, so the initiatives have just begun. During the next year we will be watching the capital flow which is so important. We will be watching our trade figures, although trade with Mexico was in excess of $40 billion last year, in 1989 it will approach $50 billion, and we hope to see it take a quantum jump next year also. So that's the movement we will watch—trade and investment and capital flow.

Senator **Graham**. In terms of trade, we know that there has been a dramatic reduction and as the charts in back of me indicate for several of the key countries in Latin America there has been an equally dramatic reduction in the net inflow of capital. In a country, the largest in Latin America, Brazil, in 1980 there was a positive $81 million and by 1987 there was a negative $6.102 billion in capital flows.

What would you look to in the numbers in the early 1990's as the likely positive impact of the Brady plan? What would constitute success?

Secretary **Mosbacher**. Brazil specifically is a tough question because they very much need to change their intellectual property rights protection laws. A lot of U.S. companies will not go in there as long as they see they are losing their rights. Their patents and their trademarks are being ignored in many areas. Brazil has started to make some turnaround on that. But I would say that particular issue would be No. 1. Political stability, inflation and monetary stability would determine it, too.

Senator **Graham**. In terms of a number, if the two things that you're going to be monitoring are capital flows and trade figures, as it relates to capital flow in Brazil, what would be an indicator of the success of the Brady plan?

Secretary **Mosbacher**. I think besides those two, capital flows into Brazil and additional trade with Brazil, we would be looking for their GNP growth and their rate of inflation. Remember, all of Latin America has had very little, virtually no GNP growth through the 1980's. So we look for a turnaround there. As I say, I think the Brady plan, as well as all these other factors, are important in turning around.

But we see evidence of this happening outside of the Brady plan. Countries are showing their willingness to change their system because they know a protectionist view, where they protect their internal companies from world competition, hasn't worked. Argentina, based on information available to the Department of Commerce, is moving to substainably open its economy to international competition. You have to have constancy to make sure that that continues. But if it does, Argentina is going to see a dramatic turnaround.

Senator **GRAHAM**. Mr. Secretary, my concern is that we rode the Baker plan for several years until finally we abandoned that horse as being a loser. Some Europeans, such as the editors of the "Economist" magazine are already declaring the Brady plan as a loser. We don't have a lot of time left in this race before the consequences are systemic and permanently adverse to the United States. I hope that we have a clear understanding of the criteria by which we will measure success and the hardheadedness to put those numbers on the board and evaluate our policy against reality and not against hopes and wishes.

I hope this committee will be part of that monitoring process and your suggestion of adding trade figures as a fourth criteria to the three that have already been suggested, which included capital flows, I think is a good one and we will put that on our report card as well.

Mr. Chairman, I have some further questions for the next round.

Senator **SARBANES**. All right. I'd say to my colleagues, we promised the Secretary we would have him out of here by about 11:30 or 11:35 because I understand he has some other commitments. I'll just take a moment or two and then I'll yield for some further questions.

Mr. Secretary, I have this concern. Let me just outline it to you. You are about to be followed by a very distinguished panel of people in the private sector who are doing their best to compete, or some of our leading exporters are involved in that business. They interact, of course, with the Commerce Department on a range of programs in which you try to encourage them or provide assistance to them.

HOW CONGRESS CAN HELP

I was interested in your response to Senator Bryan about how the Congress might help on trade promotion and financing where you said we need the support of Congress. In fact, you have not only the support for what you've proposed. The Congress went beyond what you had proposed. The administration wanted a 1-year extension, $100 million, on the war chest, the tied aid credit for the Export-Import Bank. That was the request of the administration. We did a 3-year extension at $300 million.

Were you involved in the administration's proposal?

Secretary **MOSBACHER**. Mr. Chairman, I was certainly part of the administration's deliberations on that. I'd like to enlist your aid though additionally in the OPIC legislation and in the United States and FCS appropriations which is under Commerce, which to me gives more multiplier effect than anything else we do. We talked about $100 million or more dollars. The United States and FCS we're talking about $6 to $16 million. It's a relatively small amount.

Senator **SARBANES**. Well, let me come back to this proposal. Were you part of the decision-making process that decided to request of

Congress on the tied war chest for the Eximbank simply a 1-year extension at the level of $100 million?

Secretary **Mosbacher**. Yes, because our attitude is that what we would like to do, rather than encourage other nations to pursue tied aid is to try to bring tied aid use down take it out of exporting and the capital flow out of tied trade so we are not bidding that up.

Senator **Sarbanes**. Our view of it is that you are not in much of a position to put on that kind of pressure if you don't have a longer extension and a bigger war chest with which to work in order to put on the pressure. So we did 3 years and $300 million. Are you unhappy about that? Do you think that's better than what the administration requested?

Secretary **Mosbacher**. I'd never think what you do at this end of the avenue is better than what the administration recommended. Of course you can make an argument on either side of the issue. If you want to take the administration point, which I think is important, it is that if you're trying to reduce the tied aid philosophy, you lead by doing it yourself.

Senator **Sarbanes**. Well, but you can't do it if you don't show the muscle and the commitment, in my opinion. I think that was the judgment of my colleagues.

What you're doing to these people who are about to follow you, these exporters—and this is the point I want to make—is you're talking about giving them some assistance in your sort of export administration policies.

My perception is they need more assistance on the broader questions that to some extent you've refrained from going into. I mean, there's a morning story off of this trade deficit that says:

> Some analysts think a corner of sorts has been turned as a result of an increase of about 8 percent in the value of the dollar since late last year. A rising dollar tends to make U.S. exports more expensive to foreign buyers and to make imports cheaper in this country.

Now we asked you about the value of the dollar and you said that's sort of not my bailiwick. Yet these exporters that are going to follow you are being put in a context or a framework where they are trying to export at a time of the rising value of the dollar which already this year has in effect had this 8-percent increase. So they are working at that kind of handicap in trying to compete.

Now it seems to me that the Commerce Secretary has got to get into some of these broader issues in trying to help set a more positive framework in which the exporters are going to work, aside from the various specific programs you have to try to assist them in and encourage exports. But you can do all of those programs you want, but if the dollar continues to rise in a significant way we're going to be right back where we were in the early 1980's. If the Brady plan doesn't work so these Third World countries, particularly Latin America, can go back on a growth path they're not going to take American exports.

So I'm going to close with this. I think it's very important that the Commerce Department which has this responsibility of trying to assist our exporters take a somewhat broader view of its responsibilities in terms of creating an environment or a context in which the exporters can work. You can do all the specific programs which you ought to do and I encourage you to push them, but they're not going to get you anywhere if these broader trends are working in a very fundamental way against our producers. That's the problem.

Secretary **Mosbacher**. I don't disagree with you, Mr. Chairman. I'm a member of the team that's working on this but I do not have the lead in those areas.

Senator **Sarbanes**. Well, you've been a strong voice on some other instances that we know about. We think you need to be a strong voice here.

Senator **Sarbanes**. Senator Shelby.

Senator **Shelby**. Mr. Chairman, I'll try to be brief.

Mr. Secretary, I know you're a good friend and a personal friend of the President and a member of this administration, but a lot of us up here—and I know you don't have all the decision making into the Brady plan and into the Export-Import Bank and everything that goes with it, but some of us are worried about some of the leadership in this administration and you're part of the leadership.

This isn't the Eisenhower years. We talk about it. A lot of writers write about it, when we dominated trade and we dominated everything militarily. Our banks were the strongest in the world. This is a new era.

What's bothering me is this administration, which you're part of, are you going to rock along, go along, be cautious, be timid, as you know some of these attributes have already been put on you—not you personally but the administration—after 9 months, and I think this is very important.

You asked me earlier or I asked you about were you going to take some bold leadership steps and I think that's very important because this entails risk. But this kind of world we're in, especially when we're dealing with Latin America and we're dealing with exports, we're dealing with our company's survival, our own jobs here—it's going to take leadership and I hope this administration, which you are part of, is going to seek the bold, risk-taking, however calculated way, rather than sit back and be timid. The Brady plan which we talked about, sure, we prayed it would work. It's a warmed-over Baker plan at best. It's not even reconfigured to any great extent.

I believe and a lot of people believe that it's going to take more than a prayer to make it work. A lot of people in Europe, a lot of people probably sitting in this room believe that it was flawed at its birth, probably stillborn. I don't see it going anywhere. It's going to take a lot of praying to keep it going. I wish you well, but the tied aid I think is important to make these people and our own people compete in a tough world that I hope this administration recognizes and don't be timid any more. Thank you.

Senator **Sarbanes**. Senator Graham.

Senator **Graham**. Thank you, Mr. Chairman.

I'd like to go to a second question and that is your very commendable statement that we need to stop dealing with Latin America based on yesterday's crisis but tomorrow's opportunity. I believe that particularly at a time when we're seeing other major parts of the world come together such as in Europe that the United States needs to be the leader in the vision of an economic new relationship within our own hemisphere. It was European statesmen and economists in the 1950's who had a vision of what Europe could be in the 1990's and 1992 will bring that substantially into reality.

In the late 1980's, what do you think should be our vision, the United States' vision, of what the relationship should be within this hemisphere in let's say the year 2010? What should we be working toward as our 20-year objective?

LONG TERM VIEW

Secretary **MOSBACHER**. Well, I think, Senator, we should be working for an America that can move toward a free trade area. But as I'd like to tell Senator Shelby, we've got to help the private sector do it. When we lead, it is only to the degree that we can clear the way. It's the private sector that has to bring this forward, not the Government, in my view, maybe because I've spent 99 percent of my life in the private sector.

I think we need to do what we can to help the private sector. That means opening these nations, helping them achieve free trade, and free investment, making capital available where we can, but it's got to be a private sector led development. That's where frankly the majority of the entrepreneurial brains are and that is where the leadership as far as new business down there comes from. Not by government leadership on either end of the avenue.

Senator **GRAHAM**. In answer to the question, you would say that in the year 2010 we should have as our goal a free trade zone within the hemisphere? Would you use the analogy of the free trade relationship between the United States and Canada as what our goal should be?

Secretary **MOSBACHER**. Yes. I think that's a long, long term goal that would be a very good goal for this whole hemisphere. Yes, you're absolutely correct.

Senator **GRAHAM**. What would you see as the process to begin in 1989 to move toward that 2010 goal?

Secretary **MOSBACHER**. We've started the process. This administration in 1989 has started joint agreements with Mexico. It has started a new process of cooperation with Mexico. It has started and pursued an opening of Mexico for investment, open investments, open trade, a true two-way street with Mexico and other nations. I use Mexico because it's not only geographically the closest but it has gone further both through the Brady plan and in other aspects with us and we have a very, very close tie with Mexico of course.

Senator **GRAHAM**. Do you see, for instance, in the Mexico circumstance the development of a treaty analogous to the Canadian treaty?

Secretary **MOSBACHER**. I do, and we've had some talks with our Mexican counterparts about this and they are cautious and I think we should not try to push them too fast, too hard. But they are interested, extremely interested, as we are, in moving toward this. But they want to take it a step at a time. They've come a long ways in a short time. You have to give them credit for what they've done. We're trying to help them, not just because they're a neighbor who we want to see both politically and economically successful but because frankly it also helps America's business and

American balance of trade and every other aspect of our internal economy.

Senator **Graham**. Are there any other aspects of the process toward the 2010 goal beyond the specific initiatives with Mexico?

Secretary **Mosbacher**. Well, we've started initiatives with Argentina. We've had talks with Uruguay and many of the other countries down there. I would say this administration has certainly speeded up and heated up the dialog with many countries in the hemisphere. I see some real progress and I think if you talk to our Latin American counterparts most of them would agree.

Senator **Graham**. Recognizing our time limitations, I'm going to stop on that line of questioning but look forward to being able to continue at a future date.

Let me just use my remaining second to ask about a subject that you alluded to and that is the Caribbean Basin Initiative.

Frankly, I have been involved with that since its initiative and have been the sponsor of the extension legislation which has been pending before Congress for the last couple of years.

The administration I think could charitably be described as having been relatively passive in terms of this legislation.

Does your comment today indicate that there's going to be a greater degree of administration support for the extension and expansion of the CBI?

Secretary **Mosbacher**. Yes, Senator. It does indicate that. We've started having meetings on it. We agree we need to pursue it more vigorously and we will.

Senator **Graham**. Well, whatever else happens the rest of this morning, you have made my morning better by that last statement. Thank you very much.

Senator **Sarbanes**. Thank you, Mr. Secretary.

I would just make this closing observation. I agree with the view that it's the private sector at the microeconomic level that has to carry this burden in terms of exporting. But the responsibility for helping to set the macroeconomic environment in which they are going to find themselves is a government responsibility. The private sector can't alone affect the exchange rate values of the dollar and these other currencies. It's not going to negotiate the trade arrangements. It's not going to be able to undertake the initiative as reflected in the Brady plan, which I think does represent a significant breakthrough and I've been very strongly supportive of the Secretary in that regard to try to address Third World debt and try to get these countries on a growth path so they in part, amongst other things, can be an export market.

But these ministries of finance and ministries of trade in these other countries, they are all addressing these issues in a very hardheaded way. Don't kid yourself. The Japanese are putting significant money into Brazil, for example, as a governmental policy, tied into what they are seeking to do in part in trade terms and tied into their private sector.

Now if you just take a completely hands-off attitude while other countries are doing that, our private sector is going to have their head handed to them on a platter. That's what happened to them in the early 1980's when the value of the dollar soared. No matter how efficient they became, no matter how much they tried to push their products, they were operating at a 30 to 40 percent handicap because of the currency valuation and they were just driven out of those markets as a consequence.

So you've got a responsibility to help set that broader framework in proper balance for them. Within that broader framework, the finger is on them to be effective competitors. I think they can do it, frankly, if the broader framework is in balance. But if they have to try to compete within a framework that's in imbalance, you've put a burden on them that's not rightfully theirs. And that's the closing comment I leave you with.

We're very pleased to have had you before the committee today. Thank you very much.

Secretary MOSBACHER. Thank you, Mr. Chairman. We will not be hands-off, I can tell you that.

Senator SARBANES. We'd like to ask our panel, a very distinguished group, to come forward and take their places at the table.

Gentlemen, we are very pleased to have you with us. This is a distinguished panel of witnesses representing some of the major U.S. companies who export to the developing world and also representing a major portion of our agricultural sector that can address agricultural exports and also a State district export council that can in effect lay out for us the position in which particularly smaller exporters find themselves.

So we will proceed. I'm sorry to have held you this long, but there were important issues to discuss with the Secretary obviously, and I know you would agree with that.

If you could summarize your statements—they are very good statements and we appreciate the time and effort that has gone into them and we will include them in full in the record and if you could hit the high spots we'll move through this panel and have some questions for you. It's very important what you're doing in helping us to build a record here.

Mr. Jones, I think we will go to you first, Treasurer of Combustion Engineering.

STATEMENT OF FRED R. JONES, VICE PRESIDENT AND TREASURER, COMBUSTION ENGINEERING, INC.

Mr. JONES. Mr. Chairman and members of the committee, it's a pleasure for me to testify before you today on the impact of the Latin American debt crisis on our company, Combustion Engineering, which is a Connecticut-based, multinational company.

I would just give you a very brief summary at your request of the remarks I was going to make.

Combustion Engineering is heavily dependent upon international sales. Some 40 percent of our 1988 sales of $3.5 billion were sales to overseas clients. The company itself has undergone enormous restructuring in the 1980's. The Latin American debt crisis has been an important factor contributing to the need for this change. The debt crisis has contributed to project delays, project cancellations, devaluations, high inflation, and stagnant economic growth.

C-E has been hurt in the power, petrochemical, pulp and paper, instrumentation and controls, and other industrial markets. I've included specific examples in my written testimony which include our C-E/Neyrpic joint venture in Brazil, our Fossil Systems and Services business in Argentina, and our C-E Raymond subsidiary throughout South America.

In many instances, we have had to refer our work to overseas licensees because U.S. financing was just not available to support direct exports from our shops in the United States. So we support any U.S. policy that helps to augment the purchasing power of developing countries. We support a revitalization of the U.S. Eximbank and we support efforts to encourage AID involvement in capital projects.

We recognize that a comprehensive response to the economic breakdown in debtor nations must include debt relief, and therefore we applaud the U.S. Government's efforts to encourage responsible debt relief. We commend the chairman and the other committee members for focusing attention on the link between the debt crisis in Latin America and U.S. jobs, and we appreciate the opportunity to testify today.

Thank you.

Senator **Sarbanes**. I want you to take about 30 seconds to read the paragraph into the record at the bottom of page 3 and the top of page 4, if you would, about the power plant rehabilitation situation in Argentina.

Mr. **Jones**. I was commenting on the second of the examples that I had in the testimony.

> What's particularly frustrating about the power plant rehabilitation situation in Argentina is that it's symptomatic of what's happening throughout Latin America. Over fifty percent of existing Latin American power generating equipment is U.S.-made, much of it by Combustion Engineering.
>
> Most of this equipment was installed years ago and is in need of maintenance and spare parts. Our former customers have repeatedly come to us with requests for bids, but the best we can usually do, given the absence of export credits from the United States, is to refer them to our licensees in other countries. Unless something changes we're not going to be a factor in the Latin American boiler business in terms of any significant direct exports. Until a few years ago we had a lock on this work.

[The complete prepared statement of Fred R. Jones follows:]

Statement by
Fred R. Jones, Vice President and Treasurer,
Combustion Engineering, Inc.

Impact of the Latin American Debt Crisis
on U.S. Exports and Jobs

Subcommittee on International Finance & Monetary Policy
of the
Senate Banking, Housing and Urban Affairs Committee
October 18, 1989

Mr. Chairman, members of the committee, the impact of the Latin American debt crisis on individual debtor countries and more generally on international trade and finance is much discussed and relatively well understood. I hope that my comments today about the impact of the crisis on one U.S. company, Combustion Engineering, Inc., will highlight what is often less well understood--that debt problems in Latin America have a major impact not only on U.S. banks but on U.S. manufacturers and firms providing a wide range of services. The issue is jobs and the economic well-being of communities in virtually every state in the union.

Combustion Engineering is a Connecticut-based multinational company that provides engineered products, systems, and services to the power, process, and public-sector markets. In 1988, roughly forty percent of our $3.5 billion sales were overseas. We have major manufacturing or engineering facilities in Connecticut, New York, Pennsylvania, Texas, New Jersey, Ohio, Illinois, and numerous other states. Like many American companies, Combustion Engineering has undergone enormous change during the 1980s. To maintain our competitiveness, we have reduced employment levels and manufacturing capacity, streamlined operations, cut costs, changed our product mix, and targeted a number of new markets. Total C-E employment fell from nearly 47,000 employees in 1981 to 24,000 in 1986; since then, acquisitions and the upturn of several of our markets have led to a company-wide increase in employment to 30,000 employees.

There are many reasons for these changes in the company--mature markets at home, the high value of the dollar during much of the decade, the dramatic decline in oil prices, the U.S. government's policy of not supporting industry with competitive export financing, and of course the international debt crisis. The last three have had a particularly strong impact on C-E because of our interests in oil and gas-related businesses and our extensive involvement in developing countries. Simply stated, you can't sell if your customers don't have the financial resources to buy.

Our experience in Latin America highlights the problem. In one country after another major projects have been postponed or cancelled because the government did not have the money to pay for them and could not--or would not, the effect is the same--incur new debt to cover them. I will illustrate with several specific examples.

The first is the experience in Brazil of a former C-E joint venture company, C-E/Neyrpic, which provided equipment for hydroelectric power plants. In April 1983, the United States signed five memorandums of understanding--MOUs--under which the Brazilian government gave U.S. companies first negotiating rights for five power projects. The Brazilians selected C-E for one of the five, which called for the export of $150 million of U.S. equipment. The MOU process helped to make these projects a high priority. This was not enough, however, to get us past the

perennial brick wall of no financing.

The second example is an unfinished story, the execution in Argentina of a five- to six-year $600 million program for the rehabilitation of thermal power plants. Roughly one-third of the spending on a project such as this is for the boilers, the portion of the work that we would do, one-third is for the turbines, and one-third is for the balance of plant. The existing units have C-E designed boilers, which normally would give us an important leg up in going after rehabilitation contracts. However, it looks as if the only financing available for the first units will be from the Japanese and maybe the Spanish and Italian governments. To be frank, we are struggling to stay in the running for even a small piece of these projects. Some of the work may be awarded to our licensees in countries in which project financing is available, in which case we would at least receive a royalty. However, in terms of keeping our shops full and maximizing our long-term competitiveness, we simply can't do it on crumbs.

What's particularly frustrating about the power plant rehabilitation situation in Argentina is that it's symptomatic of what is happening throughout Latin America. Over fifty percent of existing Latin American power generating equipment is U.S.-made, much of it by Combustion Engineering. Most of this equipment was installed years ago and is in need of maintenance and spare parts. Our former customers have repeatedly come to us with requests for bids, but the best we can usually do, given the absence of export credits from the United States, is to refer them to our licensees in other countries. Unless something changes we're not going to be a factor in the Latin American boiler business in terms of any significant direct exports. Until a few years ago we had a lock on this work.

The third example is the Latin American experience of another of our subsidiaries, C-E Raymond of Lisle, Illinois. Raymond is a major producer of roller mills--large pieces of equipment selling for $250,000-500,000 each that pulverize rock for a variety of industrial applications. Between 1970 and 1981, Raymond sold 14 roller mills in Latin America (excluding Mexico). Since 1981, it has sold absolutely none despite the continued competitiveness of its pricing and technology. Because of some exceptional circumstances Raymond has been able to maintain an ongoing market in Mexico, but its experience throughout the rest of Latin America makes a clear statement about how the debt crisis has undermined the market for U.S. exports.

The debt crisis eats away at U.S. exports in a multitude of ways. Sometimes it's project delays. Sometimes it's cancellations. Sometimes a project goes ahead with European or Japanese financing that either precludes or dramatically limits sourcing from the United States. Sometimes it's devaluations that you

can't adequately protect against. And sometimes it's a general convergence of economic problems--including but not limited to debt--that dramatically reduces or eliminates a country's ability to invest in capital projects.

Combustion Engineering's experience bears out the fact that the debt crisis has an impact far more pervasive--and, indeed, more insidious--than just its effect on big-ticket projects. For example, the debt crisis has contributed to a business environment in which we have repeatedly seen the profitability of our sales eroded by the carrying costs on receivables from late-paying customers. We have also been hurt when shortages of hard currency have effectively blocked the transfer of funds for servicing the dollar-denominated debt of our Latin American subsidiaries and joint ventures--local businesses that market and service equipment that we manufacture in the United States. One specific example of such "blocked funds" is the Venezuelan government's refusal to provide us hard currency at the agreed-upon exchange rate for our local joint venture company to service its U.S. debt. The debt crisis has also contributed to the development in some countries of hyperinflation, a phenomenon that precludes the use of forward markets to hedge our foreign exchange exposure on new business. Hyperinflation makes business planning extremely difficult and the cost of local borrowing, which sometimes exceeds 50 percent per month, prohibitive. There are steps that we can and do take to protect ourselves as best we can against these risks, but such protection can never be absolute in a business environment as volatile as that in the countries offering our most important Latin American markets.

To further illustrate the impact of the debt crisis on U.S. exporters, I've attached a list of major projects that have been cancelled or postponed in Latin American countries in a single industrial sector, electrical power generation. This list, which I'm sure is not exhaustive even for this one sector, represents lost export opportunities not only for large companies like Combustion Engineering or Westinghouse but for subcontractors throughout the United States. Similar lists could be compiled for cancelled or postponed projects in the petrochemical, pulp and paper, or any number of other industrial sectors.

Mr. Chairman, we commend you and other committee members for holding these hearings and thus focusing attention on the connection between the external debt crisis in Latin America and jobs here in the United States. C-E has long recognized the potential of Latin American and other developing countries as markets for our products and services. For that reason, we have consistently supported U.S. policies that enhance the purchasing power of these countries. We support any attempt to increase the ability of the U.S. Export-Import Bank to provide competitive financing to U.S. exporters as well as efforts to find a role for the U.S. Agency for International Development in the

infrastructure projects without which developing countries will never achieve self-sustained growth. Similarly, we support programs such as the Generalized System of Preferences and have opposed textile quota legislation and other measures that would limit the ability of developing countries to generate export earnings.

But such measures clearly aren't enough to correct the general economic breakdown associated with the current debt crisis. We therefore support the U.S. government's efforts to bring about debt relief in key Latin American countries as a necessary component of any comprehensive solution to their crushing economic problems. As a company that has been on the front lines trying to survive in the current environment, we can attest to the fact that the problem is not theirs alone. We are in a very real sense in this together.

Thank you.

Attachment

ILLUSTRATIVE LIST OF MAJOR CANCELLED OR POSTPONED LATIN AMERICAN POWER PROJECTS

Argentina	SEGBA (Sociedad Electrica del Gran Buenos Aires) has a 350 megawatt (MW) turbine in storage and planned in 1981-1982 to purchase the corresponding peaking unit boiler. The project has been postponed, apparently indefinitely. Export value: $50-60 million. Labor: 375 man years.
Chile	Chilectra and ENDESA each planned in the early 1980s to install a 300± MW coal-fired power plant near Santiago to satisfy the demand for additional power associated with the intended development of coal mines and shipping ports in southern Chile. These projects are on hold. Export value: $50-100 million. Labor: 625-1200 man years.
	ENDESA, CHILECTRA, and the Copper Mining Industry all had large-scale plans in 1983-1984 to develop additional hydroelectric projects in the Andes. Plans for these projects have been cut back to less than 25 percent of the original MWs.
Colombia	In 1983, C-E actively pursued CORELCA's (Corporacion Electricia de la Costa Atlantica) Cartagena IV project, a 300 MW coal-fired plant for which C-E negotiated a controlled circulation license with Distral S.A. The project is now on hold. Export value: $20-40 million. Labor: 250 man years.
	AMAGA - ISA (Interconexion Electrica, S.A.) planned to build a 150 MW coal-fired power plant in Medellin. The project is on hold and will probably be cancelled.
	Other coal-fired projects planned in Colombia for the mid-1980s, all of which have been postponed until at least the mid-1990s, include the 150 MW units at Paipa IV and Zipaquira VI and a new 300 MW station in Boyaca, Colombia.
Dominican Republic	In the early 1980s, CDE (Corporacion Dominicana de Electricidad) planned, following installation of Itabo I and II, to construct additional 125 MW PC-fired units both at Itabo and in the Samana area. Since 1985, all progress on these additional power plants has apparently been halted.
Jamaica	Since 1983, C-E has been actively involved with two proposed fossil plants for Jamaica Public Service, the first at Old Habour and the second a co-generation plant at Clarendon. However, these projects have been halted due to the difficulty of obtaining financing.
Mexico	Comision Federal de Electricidad (CFE) in the early 1980s published an ambitious expansion program for fossil power projects throughout Mexico, but by the mid-1980s these projects had all been put on hold. CFE reinitiated tendering on two projects this year, but onerous requirements for their financing effectively precluded U.S. participation.
	In 1982-1983, CFE initiated the procurement of two 1000± MW nuclear power plants for the Laguna Verde Nuclear Project. These projects have been abandoned.
Peru	During the 1982-1983 period, ELECTROPERU planned to purchase two 200± MW coal-fired units for installation at the Alto Chicama anthracite coal mines. This project has apparently been indefinitely postponed. Export value: $50-60 million.

Venezuela

In the early 1980s, C-E/Neyrpic pursued the Bajo Caroni project with EDELCA in the lower Caroni River Basin, a project that would have utilized bulb-turbine technology. EDELCA started to develop specifications during the 1982-1983 period, but this project has since apparently been halted.

In 1984, CADAFE halted construction on a large hydroelectric project -- the Uribante-Caparro Project -- in the southwestern region of Venezuela. At this time, it appears that no more than one of the three originally planned power stations will ever be completed.

Senator **Sarbanes**. Mr. Kenney, we'd like to hear from you now, the Secretary/Treasurer of Caterpillar Americas Co. in Peoria, Illinois.

STATEMENT OF B. MARK KENNEY, SECRETARY/TREASURER, CATERPILLAR AMERICAS CO.

Mr. **Kenney**. Thank you.

Mr. Chairman and members of the committee, it's an honor and a privilege to be here today. I am Mark Kenney, Secretary/Treasurer of Caterpillar Americas Co.

Caterpillar Americas is a subsidiary of Caterpillar Inc., which as you may know is one of the United States' leading exporters.

Cat Americas is responsible for selling Cat products in Latin America and the Caribbean.

As outlined in my formal statement, Cat Americas has been deeply affected by the debt crisis in Latin America. One major impact has been on our sales. Looking back in history, 1981 was our peak sales year. However, as major Latin American countries such as Mexico, Argentina and Venezuela collapsed, our sales plummeted by unprecedented amounts in 1982 and 1983.

Despite gradual improvements since 1983, our sales have never fully recovered and today remain only a fraction of what they were in 1981.

MACHINE SALES HAVE PLUMMETED

Machine sales, which are the backbone of our product line, have been particularly hard hit by the debt crisis. For example, our total machine sales to all Latin American countries, measured in units, in 1988 were only about one-third of the 1981 level. In Mexico, which was traditionally one of our largest markets, our machine sales for the entire 7-year period, 1982 to 1988, were almost 600 units lower than our sales in 1981 alone.

Obviously, substantially reduced sales have hurt our profitability. They have also hurt U.S. employment. We estimate that if exports to Latin America were still at 1981 levels they would result in an additional 4,650 man-years of work per year for U.S. employees at Caterpillar and its U.S.-based suppliers.

Our profitability has also been impacted by higher discounting. As sales opportunities have shrunk, competition has intensified for larger pieces of a smaller pie. As a result, Cat Americas has been forced to offer bigger price discounts and accept lower margins to get business. Over the past 7 years our price discounts have averaged almost twice the precrisis levels.

DEBT CRISES HAS IMPACTED OUR DEALERS

The debt crisis has also seriously impacted our dealers. We have 34 dealers located throughout Latin America and the Caribbean. It's important to understand that we sell almost exclusively through our dealer organization. Therefore, our dealers are our marketing arm and are vital to our export success.

The onset of the debt crisis virtually bankrupted several of our dealers and left them unable to repay their dollar debts to their banks and to Caterpillar. As a result, about one-third of our dealers underwent lengthy and costly debt reschedulings.

Because of the debt crisis, our dealers are now smaller and financially weaker and are more vulnerable to future economic downturns.

Over the past 7 years Cat Americas has found it necessary to provide extraordinary financial support to help our dealers reschedule their bank debts and get their feet back on the ground. This support has been costly and has further eroded our profitability.

TRADE FINANCING

The last major area of impact relates to financing. The banks, primarily U.S. banks, used to provide short-term credit lines to our dealers to support their inventory and working capital needs. They also used to provide medium-term financing to customers. Our customers often require financing for 3 to 5 years, sometimes as long as 7 to 8 years, to purchase equipment from our dealers.

Since the crisis, the banks haven't been willing to provide trade financing to Latin America, at least of the type needed by our dealers and customers. As a result, Cat Americas has been forced to do virtually all of the required financing on its own to remain competitive.

As a manufacturer, Caterpillar prefers to use its limited resources for research, development, and the manufacturing of our products. Every dollar that we have to use for financing is a dollar less that's available for these important needs.

In addition, financing in Latin America is much riskier than it used to be. Not so much because of the individual buyers but because of the unpredictable country conditions.

In my formal statement I cited the example of Ecuador where $7 million of our payments were tied up in the central bank for almost three years due to exchange shortages. That delay ended up costing us around $600,000 in interest and another $200,000 in principal.

A more recent example is Argentina where the Government recently stopped all dollar payments and declared that all current maturities would be rescheduled for 180 days. Fortunately, they later reversed that position.

Our present receivable exposure in Latin America is over $200 million due to dealer and customer financing. We have always had some exposure, but it's never been as high as it is today. Before the crisis we had comprehensive protection from risks of losses on our financing from FCIA. This type of protection is no longer available. Before the crisis Eximbank programs helped us increase our sales and reduce our financing risks. Unfortunately, Eximbank support for Latin America has been limited for the past several years.

The debt crisis continues to prevent us from significantly increasing our exports to Latin America. Just as one country like Mexico begins to improve, others like Argentina and Venezuela begin to deteriorate. We see no improvement in this situation until the debt crisis is finally resolved.

Thank you very much for the opportunity to testify.

[The complete prepared statement of B. Mark Kenney follows:]

CATERPILLAR INC.

Peoria, Illinois 61629

Statement of

B. Mark Kenney

Secretary/Treasurer

Caterpillar Americas Co.

before the

Subcommittee on International Finance and Monetary Policy

Committee on Banking, Housing and Urban Affairs

United States Senate

October 18, 1989

Mr. Chairman: It is a privilege for me to be before this subcommittee today. I am Mark Kenney, the Secretary/Treasurer of Caterpillar Americas Co. Cat Americas is a wholly-owned subsidiary of Caterpillar Inc., with responsibility for selling Cat products in Latin America and the Caribbean.

As you may know, Caterpillar is one of United States' largest exporters. Last year, Cat exports of construction equipment and engines were more than $2.9 billion. These exports generated approximately 16,300 jobs at the company's US facilities and 33,000 jobs for our U.S. suppliers.

Overall, Caterpillar's best export year was 1981. Last year, we surpassed our sales records in Canada, Europe, and Asia. Unfortunately, in Latin America we did not enjoy the same success.

The reason ... the debt crisis.

Let me explain. After years of steady growth, Cat Americas' sales peaked in 1981. Thereafter, we saw our major markets in Argentina, Mexico and Venezuela totally collapse. Sales plummeted 38 percent in 1982, and a staggering 57 percent in 1983.

While lower commodity prices -- especially for oil -- contributed to the decline, we are convinced the debt crisis was the primary cause.

Since 1983, our sales have improved gradually. However, funding shortages and government import restrictions imposed to preserve scarce foreign exchange, have severely limited our sales growth. As a result, 1988 sales remained a fraction of the pre-crisis, 1981 level.

The most significant impact has been on our earthmoving and construction machines, which are the back-bone of our product line. Even though commodity prices have now recovered, machine sales, measured in units, remain at depressed levels. For example:

- In Mexico -- traditionally our largest market -- sales for the entire seven year period 1982-1988 were almost 600 units lower than the sales in 1981 alone.

- In Argentina, sales are still 63 percent below the 1981 level.

- And in Venezuela -- our second largest market -- sales are 46 percent lower than in 1981.

Obviously, these dramatic sales declines have hurt our profitability and resulted in fewer American jobs.

As sales opportunities diminish, we've seen competition for the available business intensify. In this environment, Cat Americas has been forced to offer bigger price discounts and accept lower margins. During the past seven years, our price discount levels have averaged almost twice the pre-crisis levels.

As for American jobs, we estimate that if exports to Latin America again reach 1981 levels ... they would generate an additional 1550 manyears of work for Caterpillar's U.S. employees and 3100 manyears of work at the Company's U.S. suppliers. Most of this new work would be done in Illinois, Pennsylvania, California, and Indiana.

The debt crisis also affects our dealers. Cat Americas has 34 dealers located throughout Latin America and the Caribbean. With few exceptions, we sell Cat products exclusively through our dealer organization. Our dealers are the Company's marketing arm, and are vital to our export success in this region.

A Caterpillar dealership is capital intensive. This means that large amounts of assets are needed in the way of inventories, receivables and facilities to properly sell and service Cat products. It also means that large amounts of equity and borrowed funds are required to support these assets.

In the 70's and early '80's, there was little liquidity in the banking systems in most in Latin American countries. As a result, most of our dealers were unable to borrow locally to support their inventories and working capital needs. Their only alternative was to borrow U.S. dollars from banks outside of their countries.

The onset of the debt crisis was nearly catastrophic for many of our dealers. Sharply reduced sales and massive devaluations literally bankrupted dealers overnight. In addition, cash flow problems and foreign exchange shortages left them unable to repay their debts to the banks and to Caterpillar.

About one-third of our dealers were forced to enter into lengthy and costly debt rescheduling agreements. Some of these reschedulings have only recently been completed. Cat Americas' involvement and participation in these agreements was extensive and costly.

In five reschedulings, Cat Americas was forced to accept long-term government bonds in lieu of payments. These bonds totalled approximately $18 million. Today there are payment arrearages on most of the bonds and they have little value in the secondary market.

Over the past seven years, Cat Americas has found it necessary to provide extraordinary support to its dealers to help them survive and recover. This support has included interest-free inventory financing, inventory buybacks, and working capital loans. Here too, this special support has been costly, and has further eroded our profitability.

On the bright side, I am happy to report that because of our actions, Caterpillar is well positioned to participate in future market opportunities. Our dealer organization is intact and has stabilized financially.

However, a word of warning ... many dealers are now smaller and financially weaker than prior to 1981. While they are able to compete aggressively in an expanding market, they are quite vulnerable to future economic downturns.

Finally, the debt crisis hurts Caterpillar exports by discouraging trade financing from the U.S. banking industry.

As mentioned before, our dealers require short-term credit lines to carry inventories and support their working capital needs. In addition, customers in Latin American often require financing to purchase equipment from our dealers. Typically, customer financing ranges from 2-5 years in duration, and may go as long as 7-8 years for larger projects.

In the past, U.S. banks were the primary source for both dealer and customer financing. However, for the past several years, banks have been unwilling to provide trade financing for Latin America. As a result, Cat Americas has been forced to provide virtually all of this financing on its own to remain competitive.

The debt crisis has made financing in Latin America far riskier than it used to be. Regardless of the creditworthiness of the buyer, unforeseen changes in country economic conditions or government regulations all too frequently disrupt the buyer's ability to pay. For example:

- In Ecuador, the Central Bank -- citing foreign exchange shortages -- delayed transferring over $7 million of payments to us for almost 3 years. Earlier this year, we were finally paid, but in Ecuadorian government bonds, which we subsequently sold in the secondary market. Bottom line -- we lost $600,000 in interest and another $200,000 in principal.

At present, our total receivable exposure in Latin America exceeds $200 million. This is the amount we have at risk due to dealer and customer financing. While we have always had some exposure in Latin America, it has never been as high as today.

In the late 70's and early '80's, Cat Americas had risk protection in the form of a comprehensive FCIA Credit Insurance Policy. The policy covered most of our receivables in Latin America, and significantly reduced our risk of losses due to non-payment, whether for commercial or political reasons. We have no such protection today, nor are we able to obtain it.

Eximbank programs, when available, have helped us increase sales and reduce our financing risks. Unfortunately, Exim support for Latin America has been very limited since the onset of the debt crisis. While Exim has been willing to consider medium term financing for Mexico, we need help in the other regions of Latin America.

In summary, Cat Americas has felt the impact of the Latin American debt crisis in many ways. We have experienced dramatically lower export sales and reduced employment. Our profitability has declined and remains under intense pressure due to heavy price discounting. Our dealers are smaller and weaker. And, we have been forced to provide more financing and take greater risks to maintain our competitive position.

After almost 8 years, the debt crisis continues to prevent us from significantly increasing our exports to Latin America. Just as sales prospects in one country - such as Mexico - begin to improve, opportunities in other countries - such as Argentina and Venezuela - are deteriorating. In this limited-growth environment, it is essential that we remain competitive and capture the largest possible share of these markets.

On behalf of Caterpillar, I want to thank you for this opportunity to express our views on this important topic. I hope the information I have provided will be useful to you.

Senator **Sarbanes**. Thank you, sir. Thank you for a very carefully done and thoughtful statement.

Mr. James Cox, treasurer-international of Westinghouse Electric Corp.

STATEMENT OF JAMES S. COX, TREASURER-INTERNATIONAL, WESTINGHOUSE ELECTRIC CORP.

Mr. Cox. Mr. Chairman, members of the committee, my name is James Cox, treasurer-international for Westinghouse Electric Corp.

I appreciate the opportunity to summarize my written statement and I commend the committee for holding hearings on this timely issue.

I am here today to discuss the debt problem in the developing world and in Latin America in particular. I approach the subject from the standpoint of an executive representing a U.S. manufacturing company which has an important stake in these countries and a real interest in seeing the LDC nations achieve sustainable economic growth.

There exists a number of reasons why all of us wish to see the LDC debt problem brought under control. First, the crushing levels of poverty in which millions of people live in Latin America, Africa, and Asia can only be alleviated through economic growth and development. I think it has been well documented that this objective will not be achieved at least in the highly indebted countries without some major initiatives to address the problem. But I would also add that this is only part of the solution.

Obviously, these nations must adopt adequate internal policies to ensure more efficient utilization of domestic resources and to attract greater inflows of private capital from foreign sources.

The preceding points are, of course, well known to the committee and by themselves represent reason enough to justify serious efforts to come to grips with the LDC debt problem.

IMPACT ON U.S. TRADE

There is also an additional reason for us to be concerned about this issue; namely, the impact of the debt problem on U.S. trade. While there are a number of causes for the U.S. trade deficit to exist, the lack of growth in our export trade with the developing world and Latin America in particular is certainly one of them.

In 1981, the Latin American market was as big for United States exporters as Canada. By contrast, in 1988, the Canadian market was 72 percent larger than all of Latin America for United States exports.

Mr. Chairman, Latin America is a natural trading partner of the United States Our close relationship with the Latin American markets and our participation in Latin America's economic growth have deep historic roots.

Mr. Chairman, let me share with you some of the recent Westinghouse experiences in Latin America.

Westinghouse has had a continuous presence in these markets extending over many fields. Mr. Chairman, speaking in terms of Latin America alone, the Westinghouse marketing program in recent years has undergone significant adjustment processes as a result of the inability of these markets to sustain any semblance of development effort in power generation, transportation, and industrial and construction electrics. Many projects that have been on the drawing board never materialized.

I can specifically refer to a transportation project in Venezuela, power projects in Argentina and Brazil, a steel modernization program again in Brazil, a gas processing plant in Argentina, among many.

I must also mention that these were projects on which Westinghouse spent a great deal of business development effort in terms of engineering and management attention, as well as actual dollars expended.

NEGATIVE IMPACT ON MARKETING

The Latin American debt problem and lack of export financing has thus impacted negatively on our marketing objectives and has forced a major redirection of our marketing strategies.

The debt problem has caused other important dislocations in the Westinghouse presence in Latin America. These countries had been on the Westinghouse map for many years. We had manufacturing operations in Argentina, Brazil, Venezuela, and Mexico. The debt crisis has caused us to downsize and restructure our operations in these countries.

CHANGES IN INVESTMENT STRATEGY

It has also changed our investment strategy in Latin America. Instead of aggressively pursuing investment opportunities, we are now seeking such investments on a selective basis. Local austerity programs have caused major disruptions in local markets. They have dried up credit, driven up local interest rates, and they've made repatriation of diminished profits extremely difficult. These conditions are certainly not the climate that stimulate investment and economic growth.

I think it should be noted that the major improvement in the U.S. trade balance over the past 3 years has come mainly from our trade with other industrialized countries. There is no doubt, however, that the developing world and particularly Latin America should remain a vital market for U.S. goods and services. This is especially so given the fact that many U.S. manufacturing sectors are simply kept out of industrialized countries and will continue to be so as a result of a variety of local equipment sourcing practices.

A report by the International Monetary Fund entitled "Export Credits" concluded that a renewal of investment spending in the LDCs and the consequent increase in demand for capital good imports would lead to increased demand for export credits generally and an increase in their relative importance in financing flows to developing countries.

The report stated:

> The response of export credit authorities to this increase in demand will have an important influence on the availability of financing flows to developing countries and help shape the composition of those flows.

Mr. Chairman, it's precisely the disproportionate shift away from infrastructure that would undo the results of many years of development in Latin America and elsewhere. The financing sector is, in our opinion, the most relevant party to the future trade with the LDC's. The question is, is the United States prepared on this front?

Mr. Chairman, in our opinion, the administration must be given every encouragement to initiate significant bilateral and multilateral programs for addressing the Third World debt problem. Such programs, however, cannot be pursued in a vacuum. In the final analysis, it is the private sector and, more specifically, the export community that will move the process of reintegration of these economies into a system of international trade and thus provide a new impetus for their growth.

While these markets are reopening, the United States cannot be a bystander. It must have adequate financing capabilities to meet the new demand and therefore to be a participant in the future development effort of these countries.

Mr. Chairman, this concludes my statement and I'd be pleased to elaborate with specific examples in the future.

[The complete prepared statement of James S. Cox follows.]

STATEMENT
OF
JAMES S. COX
TREASURER-INTERNATIONAL
WESTINGHOUSE ELECTRIC CORPORATION

ON
THE IMPACT OF
THIRD WORLD DEBT ON U.S. EXPORTS

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE & MONETARY POLICY
COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS
UNITED STATES SENATE

OCTOBER 18, 1989

Mr. Chairman, members of the subcommittee, my name is James Cox, Treasurer-International for Westinghouse Electric Corporation. I am here today to discuss the debt problems in the developing world. I approach this subject from the standpoint of an executive representing a U.S. manufacturing company which has an important stake in these countries and a real interest in seeing the LDC nations achieve sustainable economic growth.

There exist a number of reasons why all of us wish to see the LDC debt problem brought under control. First, the crushing levels of absolute poverty in which 90 million people in Latin America, 280 million people in Africa and 600 million in Asia live can only be alleviated through economic growth and development. I think it has been well documented that this objective will not be achieved, at least in the highly indebted countries, without some major initiatives to address the debt problem. But I would also add that

this is only part of the solution. Obviously, these nations must adopt adequate internal policies to ensure more efficient utilization of domestic resources and to attract greater inflows of private capital from foreign sources. Also, addressing our own economic problems in this country would help solve the debt problems of the developing world. I am told each 1 percent reduction in U.S. interest rates would reduce the interest burden on LDC payments by about $5 billion.

In addition to the alleviation of poverty, addressing the LDC debt problem also is connected with political stability in the developing world. The riots in Venezuela in March of this year clearly demonstrated this fact. Put bluntly, poor economic growth and low standards of living are the breeding grounds for political instability, not the development of stable democratic governments.

The preceding points are, of course, well known to this committee and by themselves represent reason enough to justify serious efforts to come to grips with the LDC debt problems. There is also an additional reason for us to be concerned about this issue--namely, the impact of the debt problem on U.S. trade. While there are a number of causes for the U.S. trade deficit to exist, the lack of growth in our export trade with the developing world is certainly one of them.

Since 1981, total U.S. exports have grown by $87 billion. But if we exclude the four Asian newly industrialized nations (NICs) of Taiwan, Hong Kong, Singapore and Korea, our exports to the LDCs in 1988 were actually lower than in 1981. The share of U.S. exports to Mexico and Latin America slipped from about 16.5 percent to

12.5 percent of total exports between 1981 and 1988. For the Middle East the figure has fallen from 6.5 percent to a little over 3 percent, and for other LDCs excluding the four Asian NICs from 9 percent to 6.5 percent.

In 1981, the Latin American market was as big for U.S. exports as Canada. By contrast, in 1988, the Canadian market was 72 percent larger than all of Latin America for U.S. exports. In 1981, our total shipments to the developing countries, again excluding the Asian NICs, were almost $20 billion higher than our sales to the European Community, including future members Spain and Portugal. Last year, our exports to the EC-12 were $4 billion higher than all U.S. exports to all developing countries other than the four NICs.

Mr. Chairman, Latin America is a natural trading partner of the U.S. Our close relationship with the Latin American markets and our participation in Latin America's economic growth have deep historic roots. Westinghouse has had a continuous presence in these markets extending over many fields. Yet, when we see U.S. trade with Latin America diminish in such enormous magnitudes compared to U.S. trade with highly industrialized countries, we must be seriously concerned at the implications of this weakening relationship.

Over the years, Westinghouse has been a major supplier to many important projects in Brazil, Argentina, Mexico, Venezuela and elsewhere, in the fields of power generation, transportation, industrial and construction electrics. We have also been an active bidder in these markets for many more projects. It is no secret that the unsolved debt crisis in Latin America has caused a serious breakdown in our business in this area as it has affected other U.S. exporters. Lack of adequate U.S. financing facilities has made it virtually impossible to take part in the development of these economies during this decade.

I repeat, the major improvement in the U.S. trade balance over the past three years has come mainly from our trade with other industrialized countries. There is no doubt, however, that the developing world, in many ways, remains a vital market for U.S. goods and services. This is especially so given the fact that many important U.S. manufacturing sectors are simply kept out of industrialized countries, and will continue to be so, as a result of a variety of local equipment sourcing practices.

These points were illustrated in a recent report by the U.S. Agency for International Development (AID) on an industry of particular concern to Westinghouse--power generation. This report, known as Power Shortages in Developing Countries, and produced in response to a congressional request, basically deals with how to eliminate future power shortages in the developing world. Shortages now exceed 10 percent of existing power generation capability, causing significant reductions in economic growth.

While it mainly analyzes the problem of power generation in the developing world, the report does touch upon the larger issue of U.S. trade. It projects that the total export market for power equipment and services to developing countries over the next 20 years will range between $350 billion to $900 billion, depending upon the rates of economic growth. It also notes that the U.S.

share of power generation equipment and service in this market has slipped from over 20 percent in the late 1970s to 17 percent in the mid-1980s to less than 10 percent today. If this trend were to continue, the report predicted that the U.S. share would be less than 5 percent by the end of this century.

The AID report stated that "reversing this trend is possible." It went on to observe, however, that "the limited availability of export financing for U.S. companies remains a problem. The U.S. export position could be improved substantially if additional export financing assistance .... were made available."

The preceding observation about export financing gets us into the question of how the developing nations will pay for these types of capital projects and long-term investments. Funding will obviously have to come from the official export credit agencies, the multilateral development banks and bilateral development agencies and, no doubt, in the long run domestically-generated economic growth needs to be the mainstay of this new development. One source of support, in the interim, will be official export financing. I would like to focus on this aspect of the subject since it is not only a good example of the linkage between development needs and commercial interests but also because official export financing may be a more important means for directing capital to LDC investment than is generally recognized.

A 1986 report by the International Monetary Fund (IMF), Export Credits, examined this subject and concluded that a renewal of investment spending in the LDCs and the consequent increase in demand for capital goods imports would lead to increased demand for

export credits generally and an increase in their relative importance in financing flows to developing countries. The report stated that "the response of export credit authorities to this increase in demand will have an important influence on the availability of financing flows to developing countries and help shape the composition of those flows." It went on to point out that official export credits "when used effectively can promote ... economic growth."

While official export credits potentially could play a more important role in the LDC debt problems, data from a 1988 IMF report, Officially Supported Export Credits, shows disappointing results. Despite an overall trend toward liberalization, the report found that new commitments by official credit agencies declined sharply in 1985 and 1986--the last two years for which data was available for the IMF report published in early 1988. The report noted that the principal reason for this fall off "would appear to be that developing countries simply are not initiating investment projects ..." They are instead seeking "general purpose budget and balance of payments support, including debt relief, to maintain levels of public and private consumption, while sources available to finance sound investment projects remain untapped." In short, the report found that the adjustment process in many "debtor countries has fallen disproportionately on investment." A continuation of such a trend will make it all the more difficult for the developing nations to achieve necessary economic growth in the future.

Mr. Chairman, it is precisely this disproportionate shift away from infrastructure that would undo the results of many years of development in Latin America and elsewhere. This shift is found to be institutionalized as the debt crisis continues to occupy the thinking and the political process of these nations.

Since the primary role of official export credit agencies is financing exports, the activities of the U.S. export credit agency, Eximbank, is generally not clearly understood as impacting economic development. It is clear that Eximbank plays an important role in economic development and could play an even greater role in the future. For example, at a time when development strategies call for a larger role for the private sector, it will be increasingly important for export credit agencies to overcome the obstacles that in the past have inhibited financing for the private sector. Continued attention must also be given to the economic merits of projects. I have attached to my testimony a chapter from the 1988 IMF report which discusses the issue of official export credit and economic development in greater detail. I also understand that a follow-up report is now being prepared by the IMF which may shed new light on this subject.

Addressing the debt problem has, in fact, two facets from an exporter's point of view. First, a policy process must take shape within the debtor country tying this process to a structure of international agreements. Second, the relevant parties to a business arrangement must come together, as a result of a successful policy process, to generate significant magnitudes of new economic activity. The financing sector is, in our opinion, the most relevant party to the future trade with LDCs. The question is: is the U.S. prepared on this front?

For example, as this Subcommittee is well aware, the Eximbank's direct loan program has been cut by about 85 percent during the 1980s. In the past three years, Eximbank has exhausted its direct loan authorization and had to carry over new business into the next fiscal year. At the same time, we have seen total export credits offered by industrial nations climb from $8 billion in 1987 to $12.7 billion in 1988--a 55 percent increase in one year. On top of this we have the continuing use of mixed credits which, according to the Eximbank's own annual report, amounted to $15 billion in 1987.

I am raising this subject in my testimony, Mr. Chairman, because I believe Westinghouse is superbly positioned to compete in developing country markets of the future if the competition is based on price, quality, technology and service. But other factors, in particular export financing, most often come into play making it difficult to compete for capital goods business in these markets. In short, as I emphasized at the beginning of my testimony, there exist important reasons other than concern over U.S. trade which justify the need to address the debt problems of the developing world. But, if increased trade is the key mechanism to regenerate the energies of the affected Third World economies, the U.S. may find that our major competitors are better positioned than we are to take advantage of future growth opportunities in this process.

Mr. Chairman, in our opinion, the Administration must be given every encouragement to initiate significant bilateral and multilateral programs for addressing the Third World debt problem. Such programs, however, cannot be pursued in a vacuum. In the final analysis, it is the private sector in the U.S., and more specifically the U.S. exporting community that will move the process of reintegration of these economies into the system of international trade and thus provide a new impetus to their growth. When these markets are reopened, the U.S. cannot be a bystander, it must have adequate financing capabilities to meet the new demand, and therefore to be a player in the future development effort of these nations.

The Export-Import Bank, the U.S. Agency for International Development, The Trade and Development Program, and the Overseas Private Investment Corporation can be important participants in this new effort. We think that their role, in this regard, must be recognised and policies and budgetary latitudes closely reexamined with the view of accommodating the future infrastructure projects in these emerging markets. There is a great deal that can be accomplished by bringing the interagency capabilities of these finance-related institutions together.

In our opinion, if we fail to take these complementary steps, we will have missed an important opportunity for U.S. manufacturers and U.S. labor. We will have caused the reopening of Third World markets for our foreign competitors to further expand their foothold.

Mr. Chairman, this concludes my testimony. I would be glad to answer questions.

IV

Export Credits and Economic Development

Some Issues Outstanding

In this period of sharply curtailed capital flows it is to be expected that attention has focused on the volume of new credits, and this paper has that same focus. Nevertheless, questions concerning the quality of spending that is financed by foreign borrowing and its impact on the debtor's economic development are fundamental. They are important at the present time, and they will be crucial when the developing world is firmly launched on a recovery from the present period of debt difficulties and capital flows are again more readily available. For officially supported export credits, there would appear to be at least two key questions that will need to be addressed. The first is the quality of the projects financed by officially supported export credits, and the second is whether the policies of export credit agencies are such that they can be responsive to the increasing role for the private sector that many developing countries now see as a key part of their development strategy.

Project Selection

In the competitive environment prevailing prior to 1982, little attention was, by and large, focused on the economic merits of the many large projects that were being financed or insured by the export credit agencies, particularly where the repayment of the export credit was guaranteed by the debtor government.[18] There is, however, a growing realization that the earlier tendency to give very large weight to export promotion was not in the debtor countries' interests, not in the creditor countries' interests, and certainly not in the interests of the agencies. Moreover, it is becoming apparent that such an approach was also not even in the long-run interests of industrial country exporters, who would be best served by stable, growing markets in the developing countries.

While there is not at present a coordinated strategy to address project selection, some individual agencies are making greater efforts to ensure, at least for certain debtor countries, that projects receiving official export credit support contribute to the development and growth of the borrowing country. Agencies reported that the economic benefits of a particular project are most likely to be an important element in decision making where demand for credits and cover exceeds the agency's desired increase in exposure.

The quality of export credits is given particular attention by some agencies for countries that have had debt-servicing difficulties and where the agency is reopening on a limited basis. For example, two of the agencies visited have introduced special programs for early cover resumption for such countries, and in both agencies the program incorporates certain criteria for the types of projects to be financed—for example, projects that contribute to the near-term recovery of the economy and/or to the foreign exchange earning capacity of the country. One agency program specifically provides as well for cover for essential inputs. A number of agencies said they attach particular importance to the assessment of the World Bank in these instances. Indeed, some agencies have said that they are willing to provide cover for projects supported by the multilateral development banks, even if they are off cover for the debtor on normal programs.

In a limited reopening of cover the question is likely to be one of selecting the very highest priority projects; where an agency is more open but still seeking to ration demand, the question becomes one of approving or rejecting applications for cover on a wider range of projects. Some of the bigger agencies have in-house capacity for project assessment, but most agencies do not have a large staff trained in project appraisal.

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[18] While the discussion here focuses on the selection of investment projects, officially supported military credits have also contributed importantly to some debt-servicing problems.

Often they rely on a detailed project appraisal provided by the exporter; only a few agencies have regular procedures for obtaining an independent review of the exporter's submission. Sometimes agencies rely on their embassies to provide an opinion on the project. Nevertheless, many of the agencies, particularly the smaller agencies, said they do not have and could not afford to develop the in-house capacity to assess the economic impact of all important projects. Two approaches that have been adopted in these circumstances are to ask the debtor government to establish priorities or to seek the assessment of the World Bank and other multilateral development banks.

Systems under which the debtor government does the rationing are consistent with the tenet, generally expressed by agencies, that public investment planning, including project appraisal and selection, is the responsibility of the debtor government. Indeed, where the government has in place a well-formulated investment program, such an approach could help ensure that the credit and cover decisions of agencies support that program. Also, agencies sometimes have considered that a government's indication of priorities might facilitate payments transfers should difficulties arise. Agencies did not, however, think such approaches could provide a general solution to the problem of project selection, since arrangements between the debtor government and particular creditors could not ensure that projects not on the priority list would not be financed from other foreign or domestic sources. They considered that adherence to an investment program was best enforced domestically between the government and the various borrowers.

Agencies were turning increasingly to the World Bank and other multilateral development banks for assistance in project assessment. Most agencies viewed favorably projects where there was direct financial involvement of the multilateral development banks and often were prepared to grant cover on such projects, even outside their current policies for the debtor country concerned. The World Bank has in recent years been circulating to agencies lists of projects which the agencies might consider cofinancing, and most of the agencies had responded to this initiative.

Some agencies, however, also sought to look to the development banks, particularly the World Bank, for broader guidance on project selection, either in the context of a debtor's overall investment program or in the appraisal of specific projects in which the multilateral development banks were not directly involved. In this context, agencies welcomed recent indications from the World Bank that the Bank is prepared, if requested, to provide assistance in reviewing the quality of large projects in which it is not directly involved. A number of agencies said that they had appreciated the opportunity provided by the ad hoc meeting of agencies on Mexico in September 1986 to hear the views of the World Bank and the Inter-American Development Bank on Mexico's investment program and sectoral development priorities.

Overall, agencies considered that the World Bank's endorsement of a debtor's investment program could be particularly important when they were in the process of reopening cover for countries that had experienced debt-servicing difficulties. Indeed, the existence of such an investment program could facilitate the reopening of cover, and more resources might become available if high-priority projects were identified clearly and creditors could have confidence that uneconomic projects would not be undertaken. Moreover, in these instances and more generally, confidence that the debtor government was effectively controlling foreign borrowing by various public sector entities would facilitate a more open cover policy stance. Nevertheless, while these positive indications regarding the quality of the investment program or individual projects might elicit more resources than would otherwise be forthcoming, agencies considered that the obverse was less likely to be true, that is, that the absence of a positive assessment or of a well-formulated investment program would be less likely to restrain agency activity in markets where they were actively seeking new business. The role of officially supported credits in supporting sound investment programs will, therefore, need to be kept under review by both debtor and creditor governments.

Role of Private Sector

While most export credit agencies have to varying degrees always been willing to provide credits and cover for private buyers without government guarantee, officially supported export credits traditionally have been oriented toward the financing of large public sector investment projects. At a time when an increasing number of countries are adopting development strategies that call for a much larger role for the private sector in investment and production, the question arises how export credit and cover for private buyers might be facilitated.

The main factor cited by most agencies as contributing to their reluctance to cover private sector buyers in developing countries, while actively seeking such business in OECD markets, was the lack of adequate legal protection for foreign creditors. In covering private buyers, an agency's first concern is to obtain adequate security. In some developing countries, however, agencies found it difficult to obtain appropriate security, and in many more they found it difficult to enforce such security through the courts in cases of default. Some developing countries, particularly in Asia, had legal systems with clear and enforceable provisions regarding such commercial transactions, and in such cases agencies tended to be quite willing to cover private buyers without a government or bank guarantee. In the agencies' view, therefore, a necessary precondition for a substantial increase in credit and cover to private buyers in many developing countries would be a revision of laws governing commercial transactions to enable foreign creditors to acquire adequate security, for example, liens, and to enforce the relevant provisions in a manner that would not discriminate against foreign creditors.

Another important factor cited as facilitating the provision of cover to private buyers was a well-developed local banking system. Although a few agencies that already did substantial business with private buyers had credit records and could do credit assessments on a large number of private firms in developing countries, other agencies considered that they did not have the capacity to do an independent assessment of the creditworthiness of any but the largest private buyers. In such circumstances, the provision of cover to private buyers could be greatly facilitated by a relationship with a local bank in which the agency had confidence, since this could substantially reduce the costs of credit assessment and documentation. For some agencies, the guarantee of bank-to-bank lines of credit had facilitated their private sector business, although others had had a less positive experience with these types of arrangements.

In addition to proper security and credit assessment, which were related to commercial risk, some agencies also noted that problems that originated in the public sector were often reflected in payments difficulties of the private sector. The provision of cover to the private sector would be greatly facilitated if transfers by the private sector were permitted freely or on a priority basis when debt-servicing difficulties were encountered. Agencies indicated, in particular, that they were much more likely to be open for cover for the private sector in countries where there was no transfer risk, such as in the CFA franc zone. Agencies further noted that, contrary to earlier practice, the Paris Club had on a number of occasions over the past two years excluded private sector debt from reschedulings. Some agencies considered this an effective strategy for developing countries that wished to insulate the private sector from debt-servicing problems that originated primarily in the public sector; it was, of course, also necessary that private sector payments be transferred on a timely basis. In such cases these agencies were generally willing to maintain a less restrictive stance toward the private than the public sector. Other agencies, however, never draw a distinction, apart from security requirements, between the private and public sectors in setting cover policies, since they believe that problems originating in the public sector are most likely to result eventually in a bad payments experience with the private sector.

Finally, agencies said that a factor particularly influencing private sector business at present was the bad experience over recent years, from the viewpoint of both the borrowers and the agencies, when a number of developing countries first let their exchange rates become severely overvalued and then corrected them sharply downward. Many agencies had as a consequence faced widespread commercial defaults, making them wary of further private buyer business. More important, the firms that had survived these sharp swings in exchange rates were reluctant to take on new foreign currency debt. As a result, demand for cover for private buyers was at a very low level in some Latin American markets. Another result of this experience was that some agencies were now focusing more on the appropriateness of exchange rates and other prices in assessing commercial risk.

Overall, however, the main factor agencies cited as inhibiting or facilitating cover for private buyers was the lack of adequate security and legal protection. This might, therefore, be an area where the provision of technical assistance, or at least further investigation of these problems, by an international institution with appropriate expertise, perhaps the International Finance Corporation (IFC), could facilitate the provision of official export credit support to the private sector in developing countries. The IFC could, for example, be called on to help in the development of financial institutions and in their relationship with the private sector. It should be noted, however, that efforts in financial institution development take substantial time to bear fruit, while changes in legal provisions could have a more immediate impact.

Senator **Sarbanes**. Thank you very much, sir.

We will now hear from Mr. James Lee Adams, Chairman of the Board of The American Soybean Association.

STATEMENT OF JAMES LEE ADAMS, CHAIRMAN OF THE BOARD, THE AMERICAN SOYBEAN ASSOCIATION, CAMILLA, GA

Mr. **Adams**. Thank you, Mr. Chairman.

I am James Lee Adams, Jr., a farmer from Camilla, GA and I currently serve as chairman of the board of the American Soybean Association.

Soybeans and soybean products are normally the highest paid U.S. agricultural export with a value of approximately $7 billion per year. Soybeans are the highest paid field crops in several States of the United States, including the chairman's State of Maryland. I commend the chairman for having this hearing on the debt crisis, as it is an issue of great importance and concern to U.S. soybean farmers and also ask that my entire written statement be made a part of the record.

Senator **Sarbanes**. It will be so included.

Mr. **Adams**. We believe the U.S. agricultural sector is uniquely qualified to comment on the international debt crisis for we have recently gone through a debt crisis of our own. Lessons we have learned may have application in this international debt crisis.

Also, U.S. soybean farmers believe we are direct victims of a debt crisis. During the 1970's we experienced sharp increases in demand in developing nations around the world as those nations used recycled petrodollars to finance economic growth and improve the living standards of their people. U.S. soybeans and soybean products exports grew from $3.8 billion in 1973 to $7.6 billion in 1980. However, in the early 1980's the world economy was rocked by recession, partially led by the debt-induced stagnation in developing nations. Developing nations found they had borrowed too much for the economies to support and were forced to undertake severe austerity programs, sharp cutbacks of such items as food and feed commodities like soybeans.

At the same time Brazil and Argentina, our two largest competitors in soybeans and soybean products, were curtailing imports, they also were providing enormous incentives to their farmers and/or exporters to expand exports of soybeans and soybean products in order to service that debt.

BRAZILIAN SITUATION

Consider Brazil as an example. In 1972, Brazil produced 132 million bushels of soybeans. Brazilian production this year is estimated at approximately 845 million bushels. Brazil will export approximately 75 percent of its production. That is astonishing considering that over half of the 140 million people in Brazil are malnourished. Brazil has achieved this fantastic growth in exports by providing subsidized production loans to its farmers as well as subsidizing construction of processing facilities.

The debt-driven push for exports is having a profound effect on Brazilian society and the ecology. While millions of Brazilians are destitute and malnourished, a relative few are getting wealthy producing soybeans on large tracts of land for export. At the same time, Brazil is providing incentives for millions of landless peasants to migrate into the Amazon Basin where they slash and burn critical rain forests in order to produce cattle and crops such as soybeans. Today you have a situation in Brazil where the gap between the rich and the poor is widening quickly while the "world's lungs" are being destroyed to produce exportable commodities.

A similar situation exists in Argentina where soybean production has increased over 2,000 percent since 1972, 95 percent of which is exported.

Conservatively, we estimate the debt crisis is annually costing U.S. soybean farmers over $1 billion in lost sales. Debt reduction in our view is the only realistic solution to ending the Third World debt crisis, just as it was the solution to the farm credit crisis in the United States in the middle of this decade.

We believe the Brady plan is inadequate to solve the problem. The plan does not call for sufficient reductions in debt and does not call for sufficient policy reforms by debtor nations to end the crisis.

ASA'S PROPOSALS

In ASA's view, it is essential for all developed nations, including the United States, to contribute to a major debt reduction effort for developing nations.

With respect to policy reforms, we urge the following:

(1) The debtor nations should have to reduce barriers to imports while eliminating or phasing out export subsidies.

(2) Brazil should have to divert more of its land from producing export crops to producing crops for domestic consumption.

(3) Brazil and other debtor nations should have to adopt and enforce strict laws protecting their rain forests and other globally important ecosystems.

(4) Debtor nations should have to allocate more funds to be spent on human nutrition education and internal market development programs for food crops now being exported.

We recognize the measures we have proposed border on the extreme, but we believe the situation deserves extreme measures. If something is not done we can only look forward to defaults by one developing nation after another and by some major U.S. banks that hold LDC loans. Or we will see revolutions and social strife in some developing nations brought on by debt-induced austerity measures. Rather than wait for unpalatable events to unfold, ASA believes it makes far more sense to act now to effect desirable change through a coordinated debt-reduction policy. We urge the Congress to take the lead in bringing about that policy before it is too late.

Thank you.

[The complete prepared statement of James Lee Adams follows:]

TESTIMONY OF THE AMERICAN SOYBEAN ASSOCIATION
PRESENTED BY CHAIRMAN OF THE BOARD JAMES LEE ADAMS, JR.
BEFORE THE SENATE BANKING COMMITTEE
UNITED STATES SENATE
OCTOBER 18, 1989

IMPACT OF THIRD WORLD DEBT ON U.S. SOYBEAN FARMERS

I am James Lee Adams, Jr., a farmer from Camilla, Georgia. I currently serve as Chairman of the Board of the American Soybean Association. ASA is a national, non-profit organization representing U.S. soybean farmers. Collectively, soybeans and soybean products are normally the highest-valued U.S. agricultural export with a value of approximately $7.00 billion. Soybeans are the highest-valued field crops in several states in the U.S., including Senator Sarbanes' State of Maryland.

I appreciate the opportunity to testify on the issue of the impact of the Third World debt on the U.S. soybean industry. I commend the Chairman for having this hearing, as it is an issue of great importance and concern to U.S. soybean farmers.

U.S. soybean farmers believe they are direct victims of the debt crisis and have been for several years. During normal years approximately half of U.S. soybeans are exported either as whole soybeans or as soybean meal, soybean oil, or several other value-added soybean products. Our largest markets are in Europe and Japan. Until this decade the U.S. dominated trade in soybeans in a fast-growing world market. During the 1970's we experienced sharp increases in demand in developing nations around the world as those nations used recycled petrodollars to finance economic growth and improve the living standards of their people. U.S. soybean and product exports grew from $3.8 billion in 1973 to over $7.6 billion in 1980. This heightened demand resulted in U.S. soybean acreage increasing from only 46.8 million acres in 1972 to over 71.4 million acres in 1979.

In the early 1980's the world economy was rocked by a recession partially led by the debt-induced stagnation in developing nations. Developing nations like Brazil, Argentina, Mexico, and Nigeria found that they had borrowed too much for their economies to support and therefore were forced to undertake severe austerity programs. Often the IMF dictated that the debtor nations cut back sharply on imports while maximizing export sales through various means. Food and feed commodities such as soybeans were some of the first imports to be curtailed.

Brazil and Argentina are our two largest competitors in soybeans and soybean products, and they are also two of the three largest debtor developing countries. Collectively the two nations currently owe in excess of $160 billion. Both nations are under extreme pressure today from the IMF and private banks to increase their trade balances in order to surplus sufficient foreign exchange to pay the interest and principal due on their foreign loans. Other witnesses on this panel can certainly testify as to the impact Brazil and Argentina's import cutbacks have had on their industries. However, at the same time both nations have provided enormous incentives to their farmers and/or exporters to expand exports of soybeans and soybean products.

Consider Brazil as an example. In 1972 Brazil produced 3.6 MMT of soybeans. Brazilian production this year was estimated at approximately 23 MMT. Of this year's crop Brazil will export approximately 75 percent either as whole soybeans or as soybean meal and oil. That is astonishing considering that over half of the 140 million people in Brazil are said to be malnourished. Brazil has achieved its fantastic growth in exports by providing subsidized production loans to its farmers, as well as by subsidizing the construction of processing facilities. Currently its tax system provides strong incentives to export its soybeans rather than consume them at home.

The debt-driven push for exports is having a profound effect on the Brazilian society and ecology. While scores of millions of Brazilians are destitute and malnourished, a relative few are getting wealthy producing soybeans on large tracts of land for export. In the Brazilian State of Mato Grosso, for example, it is not uncommon to see soybean farms of 10,000 to 20,000 acres. At the same time, Brazil is providing incentives for millions of landless peasants to migrate into the Amazon Basin where they slash and burn critical rain forests in order to produce cattle and crops such as soybeans. Today you have a situation in Brazil where the gap between the rich and the poor is widening quickly while the "world's lungs" are being destroyed by the poor and a few large firms in search of exportable commodities like lumber and soybeans. A similar situation exists in Bolivia.

In Argentina the situation is similar in that the nation of 45 million people owes approximately $50 billion. That country's soybean production has increased from only about 460,000 MT in 1972 to over 10 MMT in 1988. This year Argentina will export over 95 percent of its soybeans, principally as meal and oil. The Argentine government provides huge incentives to export its soybean crop rather than consume it domestically. Subsidies to processors to process and export soybeans are currently equal to about 60 cents per bushel, 11% of the world price.

U.S. soybean farmers have been hard-hit by the debt-driven exports of Argentina and Brazil. In 1979, the U.S. grew over 71 million acres of soybeans and our export value was over $7.6 billion. In 1987, the U.S. grew only 58 million acres of soybeans, 18.5 percent less than in 1979. Our exports in 1989 are estimated at only $5.8 billion, 23.6 percent less than 1979. Certainly other factors, such as European oilseed subsidies, have contributed to the decline in U.S. production and exports, but a major factor has been the debt-driven growth in Brazilian and Argentine exports combined with the import cutbacks of debtor developing nations. Conservatively we estimate the debt crisis is annually costing U.S. soybean farmers over $1 billion in lost sales.

In 1986 ASA published a study on the Latin American debt crisis that proposed a systematic write-off of Latin America's debt conditioned on the debtor nations adopting specific policy reforms. At the time the U.S. debt policy was the Baker Plan, a plan centered on extending new loans to developing nations to finance even greater exports by those nations. ASA said at the time that the Baker Plan would fail, and that the only solution was to accept the fact that the major debtor nations simply could not repay their foreign debts. Debt write-off, in our view, was and is the only realistic solution to ending the Third World debt crisis just as it was the solution to the farm credit crisis in the U.S. in the middle of this decade.

We are pleased to see the Bush Administration agrees debt reductions are necessary to solve the Latin Debt crisis. However, we believe the Brady Plan is inadequate to solve the problem. The plan does not call for sufficient reductions in debt and does not call for sufficient policy reforms by debtor nations to end the crisis.

In ASA's view it is essential for all developed nations, including the U.S., to contribute to the debt reduction effort. U.S. and foreign banks should also contribute substantially to the debt reduction since it was the banks that loaned the money to the nations originally in search of high returns.

With respect to policy reforms, we believe the following should be the type of reforms required of debtor nations:

1) The debtor nations should have to reduce barriers to imports while eliminating or phasing out export subsidies.

2) Brazil should have to divert more of its land from producing export crops to producing crops for domestic consumption.

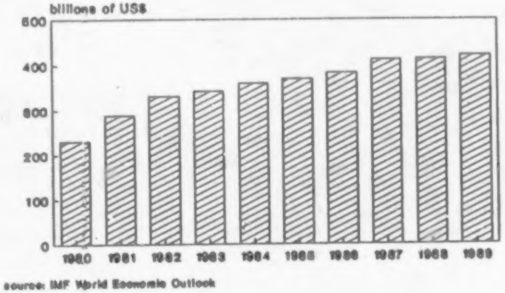
3) Brazil and other debtor nations should have to adopt and enforce strict laws protecting their rain forests and other globally-important ecosystems.

4) Debtor nations should have to allocate more funds to be spent on human nutrition education and internal market development programs for food crops now being exported.

5) All nations should have to establish or maintain democratic governments to be eligible for debt reduction.

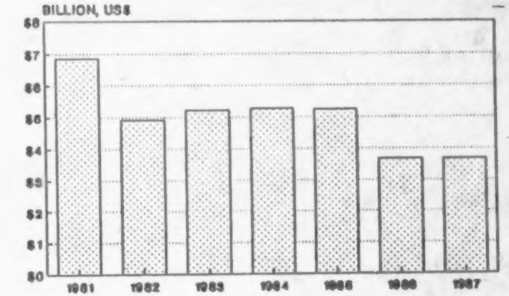
We recognize the measures we have proposed border on the extreme, but we believe the situation deserves extreme measures. If something is not done we can only look forward to defaults by one developing nation after another and by some major U.S. banks that hold LDC loans. Or we will see revolutions and social strife in some developing nations brought on by debt-induced austerity measures. Rather than wait for unpalatable events to unfold, ASA believes it makes far more sense to act now to effect desirable change through a coordinated debt-reduction policy. We urge the Congress to take the lead in bringing about that policy before it is too late.

Western Hemisphere
Total External Debt
of Developing Countries



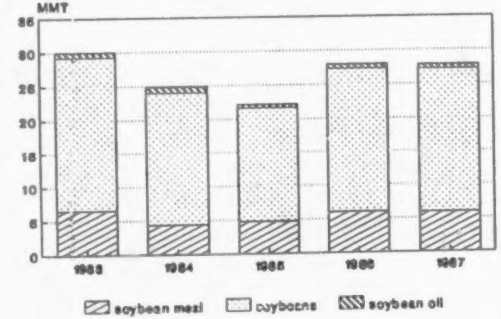
source: IMF World Economic Outlook

U.S. Agricultural Exports
to Latin America



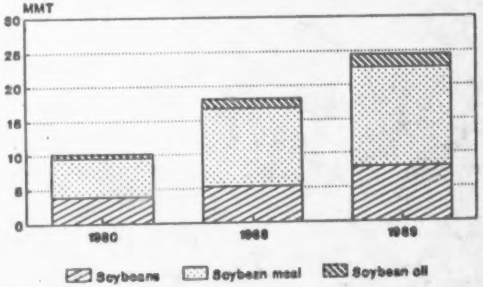
source: FATUS

U.S. Soy Exports



source: 1987 FATUS

Latin American
Soy Exports



source: FAS

Senator **Sarbanes**. Thank you very much.

The final member of the panel is Charles McKay, chairman of the Florida District Export Council and president of Charles McKay & Associates, Inc., of Miami, FL.

Senator **Graham**. Mr. Chairman, if I could before Mr. McKay begins, I would like to briefly introduce him as a man that I have known for many years and worked with very closely. He's been a leader not only in our State but nationally in the cause of exports—particularly to Latin America and particularly among smaller and emerging businesses. I look forward to the benefit that this committee will receive from his comments.

Senator **Sarbanes**. Mr. McKay, we are pleased to have you here.

STATEMENT OF CHARLES McKAY, CHAIRMAN, FLORIDA DISTRICT EXPORT COUNCIL; PRESIDENT, CHARLES McKAY & ASSOCIATES, INC.

Mr. **McKay**. Thank you very much, Mr. Chairman and Senator Graham.

I am very honored to be here and I applaud the work your committee is doing.

I have been directly involved with Latin America my entire adult life—as a student doing graduate work for the University of Miami, as a former member of the U.S. Foreign Service and, for the past 26 years, as the owner and the CEO of Charles McKay & Associates, Inc.

One thing our company does is buy complete industrial plants in the United States, dismantle them, and ship them abroad. We have done business in almost every country in Latin America, and we are directly involved with the impact of this debt crisis.

In addition, I am also chairman of the Florida District Export Council, the DEC, a national organization comprised of exporters who work very closely with the U.S. Department of Commerce in developing exports.

In the 1970's we were witness to a new momentum with export success which boosted Florida's exports from about $1 billion a year in 1970 to more than $10 billion a year in 1980. Between 1979 and 1980 there was a record-breaking gain of 30.21 percent, and by 1981 Florida enjoyed a 36-percent share of all U.S. exports to Latin America.

Our company, like so many, took a tremendous setback with the devaluation of the Venezuelan Bolivar and the subsequent fall of the Mexican Peso in the early part of the 1980's.

I would call the early 1980's the lost decade from an export trade perspective. I suggest that it will be well into the 1990's before we really "catch up" to a healthy volume of trade that characterized the predebt export era. The "catching up" can only be done if our Government makes export trade a national priority and thus becomes more actively involved in the support of the export trader who is fighting an increasing level of competition by foreign companies which are being financed and subsidized by their governments.

Latin America is truly the last market area of the world where we have a competitive advantage—a frontier opportunity which the United States may either nourish for the future or neglect by a passive trade policy which will erode U.S. influence and destroy long-term export trade opportunities for all of us.

Today, long-term, interest-free—or almost interest-free—financing is being offered regularly to Latin American buyers by suppliers from the Far East and Europe—attractive financing packages which are tying up both Latin American markets and also sources of supply thereby weakening the traditional influence of the U.S. trader throughout the hemisphere.

The most important single factor working against the U.S. exporter trying to maintain his share of the Latin American market in this "debt crisis" business environment is, in my opinion, the inability of the exporter to get proper financing to compete with the non-U.S. suppliers who are able to offer unusually attractive noncompetitive financing.

I believe that the solid support on the part of the Eximbank is more critical today than ever before, and yet part of our Government's answer to our fiscal deficit has been to cut Eximbank's administrative budget. Eximbank's budget and its strategy must include steps to get the commercial banks back into the trade finance business if we, as a nation, are to keep our share of the Latin American market.

Conclusion No. 1: About one-third of the export traders in Florida went out of the export business with the arrival of the debt crisis in the early part of the 1980's when Florida's exports to Latin America slid from more than $10 billion in 1980 and 1981 to less than $8 billion in 1983. Our company almost went out of business during this period.

No. 2: The United States should take a very bold initiative in the economic recovery of Latin America. We must be creative, not through a massive dollar grant, but rather, by implementing such programs as better guarantees for U.S. investors involved in the development process, a better format for debt-equity swaps, some type of debt reduction program possibly keyed to the purchase of U.S. goods and U.S. technological services, better channels for trade financing for the small trader, and possibly a tax break for the "new to export" companies and manufacturers who tool up for the export market.

No. 3: Latin America and the Caribbean nations are changing as markets for U.S. products. Many countries are striving to become more self-sufficient and thus decrease their dependence on imports; countries are "privatizing" their resources; markets are generally becoming more accessible to the world at large. As these fundamental changes occur, European and Japanese interests are targeting these market opportunities with all the tools they can muster. The United States, therefore, should take a more aggressive stance in the marketing process through its support of the United States and Foreign Commercial Service, the United States and FCS, as a vehicle for identifying market opportunities and helping the U.S. trader in the face of growing competition.

No. 4: The United States can strengthen its influence in Latin America and develop the long-term benefits of a trading partner only if the United States makes exporting a national priority, and only if the United States provides a greater level of assistance to the U.S. exporter who needs more help than ever before.

I thank you.

[The complete prepared statement of Charles McKay follows:]

THE IMPACT OF THE LATIN AMERICAN DEBT
ON FLORIDA EXPORTS

Prepared For:

Subcommittee on International Finance
and Monetary Policy
UNITED STATES SENATE BANKING COMMITTEE

Charles McKay, President
Charles McKay & Associates, Inc.
Miami, Florida
Chairman, Florida District Export Council (DEC)

October 18, 1989

THE IMPACT OF THE LATIN AMERICAN DEBT ON FLORIDA EXPORTS

INTRODUCTION

I am honored to have been invited to offer my comments to you today about the Latin American debt crisis and the impact it has had on the U.S. exporter.

I have been directly involved with Latin America all of my adult life -- as a student at the University of Miami, as a member of the United States Foreign Service, and, for the last 26 years, as the owner and CEO of an export company which has been almost totally dependent on the economic life of Latin America and the Caribbean. I have conducted business in almost every country and sold everything from fertilizer to heavy mining equipment, crushing equipment and concrete block plants. For the last dozen years our company has specialized in the sale of technology and complete plants, including soft drink bottling plants, delivered to buyers on a turn-key basis in the Latin American region.

During the last quarter of a century I have been directly affected by the impact of the rise and fall of the Latin American economies. Like so many U.S. companies which have been so totally dependent on the economic strength of the region, I have experienced the success and failure of doing business in Latin America. I believe long-term trade opportunities will be available for the U.S. if the tremendous resources of the Latin American area are properly supported.

In addition to operating my own company, I have also been privileged to serve as the Chairman of the Florida District Export Council (DEC), a national organization comprised of exporters who work with our U.S. Department of Commerce in promoting our nation's exports around the world.

Members of the Florida DEC are appointed by the U.S. Secretary of Commerce in recognition of their achievement in the export field, and because of their willingness to give their time and resources to help others interested in learning more about the export business, or in upgrading the professionalism and profitability of established export companies. Working with the Miami District Office of the U.S. Department of Commerce, our DEC also produces statewide industry trade lists of Florida companies interested in developing new business abroad-- lists which we mail around the world for distribution through the vast professional network of the United States & Foreign Commercial Service (US&FCS). We also conduct surveys of Florida companies engaged in the export business.

My testimony is based on my own personal observations as an export trader who has focused on Latin America for many years, and as the Chairman of the Florida DEC.

THE 1970'S

Florida, and particularly South Florida, started to emerge as a true trading center in the 1970's because of many factors: the growing influence of Latin Americans moving to the Miami area; the growing presence of many Edge Act banks which were opening offices in South Florida; the move to South Florida on the part of many multinational companies who established their Latin American or international headquarters there; our geographic location; the opening up of many new transportation options for both ocean freight and air cargo; and because of an environment created by federal, state and municipal governments which inspired the private sector to rally with the public sector in building exports.

But the most powerful contributor which helped bolster Florida, and particularly Miami, to become a hub of Latin American trade was, I believe, the abundance of petro dollars pumped into our local banking centers, and the seemingly perpetual arrival of huge amounts of Latin American flight capital to South Florida to fuel our banking community. I am convinced that this wealth brought a tremendous pressure on our area bankers to make revenue on this money -- to finance a variety of exports to Latin America, to lend money for private investments in Latin America, and to participate in all kinds of "deals" which would not have been considered if it were not for the abundance of imported bank wealth.

The 1970's were witness to a new momentum of export success which boosted Florida's exports from about one billion dollars a year in 1970 to more than ten billion dollars a year in 1980! Between 1979 and 1980 there was a record-breaking gain of 30.21%, and by 1981 Florida enjoyed a 36% share of all U.S. exports to Latin America. Banks were available for financing exports, and confidence in most countries created new investments which needed even more U.S. raw materials and machinery. This situation created a development loop which included more jobs, more consumption, and more trade.

New export companies came into being throughout South Florida -- many of them very small, family-type operations which were able to succeed only in the light of "the growing Latin American markets" for all kinds of products ranging from luxury goods to turbines. Trade continued to flourish and these new trading links between Miami and Latin America solidified our dependence on the continued growth of Latin America as a trading partner.

THE 1980'S

Our company, like so many, took a tremendous setback with the devaluation of the Venezuelan Bolivar and the fall in the Mexican Peso in the early 1980's. Banks started their retreat in lending policies, multinational companies started cutbacks in personnel, and hundreds of export firms went out of business. For the first time since we started business in 1963, I searched for new trade opportunities in the Pacific Rim and Africa, but without success. We investigated barter deals and counter trade. Many Latin American export companies also tried to launch new sales programs to Europe and the Far East. A few succeeded, but the trade picture with Latin America had plummeted to new lows, and I believe about one-third of the companies which were active in 1980 had gone out of the export business by the mid-1980's.

The year 1980 ushered in a record-breaking success of more than ten billion dollars in Florida exports; total U.S. exports to Latin America grew to a whopping $41.9 billion for 1981. And then came the debt crisis. The trade tailspin which followed pulled Florida exports downward 20% by 1983 when totals U.S. exports to Latin America dropped to $25.3 billion, a $16.6 billion drop for that year alone! It was only in 1987 that exports again started to increase and go above the ten billion dollar level of 1980.

The 1980's could be called the "lost decade" from an export trade prospective, particularly in light of the fact that inflation had altered the true impact of the debt crisis; I suggest that it will be well into the 1990's before we really "catch up" to a healthy volume of trade that characterized the pre-debt export era. The "catching up" can only happen if our government makes export trade a national priority and thus becomes more actively involved in support of the export trader who is fighting an increasing level of foreign competition by companies who are financed and subsidized by their governments.

The U.S. trader continues to struggle with trade impediments, inadequate financing, and a curtailment in the strength of the U.S. and Foreign Commercial Service.

A LOOK TOWARDS THE 1990'S

During the last five years our company has done well in spite of the económic slump of the Latin American area as a whole. We have been successful in part because we are aggressively marketing a unique product (complete manufacturing/processing plants--used plants which are frequently too small or too slow to be competitive in the U.S.) to an market where there is a growing need to become self-sufficient and to export products for survival.

It is sometimes dangerous to group all of the Latin American nations together when addressing the question of hemispheric trade because of the unique diversity of the different countries, and because of the cyclical economic changes which always seem to be occurring in each country. These changes bring about a constant shift between the "good" markets, and those which may not be profitable for the U.S. exporter.

I am optimistic about the future of our company and the Latin American market demands for our products in the 1990's. Most other exporters in Florida share my optimism for the future. Most believe that Florida exports by ocean freight will break all records and that air shipments from Florida will also continue to soar into the 1990's.

The Miami Free Trade Zone has shown healthy increases in business during the last four years. It is interesting that during the debt crisis days of the early 1980's the Zone shipped about $190 million. In 1988 the Free Trade Zone shipped a record breaking $357.9 million! The Management of the Zone is so optimistic about the 1990's that they have just signed a contract for massive expansion, space which will be available to the international trade community as we enter the new decade. Many other similar growth patterns serve as bench marks of the future success of Florida exports -- mostly to Latin America -- via the South Florida gateway.

Latin America is truly the last market area of the world where we have a competitive advantage -- a frontier opportunity which the United States may either nourish for the future, or neglect by a passive trade policy which will erode U.S. influence and destroy long-term export trade opportunities.

Recent success in export trade with Latin America and the Caribbean is, I believe, the result of several factors, including:

(1) the arrival of business people from Europe, Japan, Korea, and other countries who wish to use the U.S. (and particularly South Florida) as a springboard to future trade opportunities in Latin America and, of course, in the Caribbean Basin countries;

(2) a new "awareness" on the part of the owners and management of new trading companies, many of which are wholly owned by Latin Americans who have found that U.S.- based companies are good conduits for transferring capital to the U.S.;

(3) the supportive strength and determination on the part of the South Florida export community to "hold on" when markets are soft and profits, at best, are meager;

(4) the awareness (particularly on the part of the Oriental cultures) that economic strengths and weaknesses, particularly in Latin America, are cyclical and, therefore, the economic opportunities in Latin America will become a reality in the 1990's. Now, they reason, is the time to penetrate the area and dig in, and thus be strategically positioned to be a profit-taker in the future. (Many of these "trade development" offices have opened branches in Miami, and their commerce with Latin America is helping to boost Florida's growing export balance);

(5) the recent realization on the part of nearly all Latin American countries of their need to export for their survival; and

(6) the maturity of the Caribbean Basin Initiative, which is finally starting to gain some momentum and is opening new trade relations for Florida exporters, many of whom are finding themselves also involved in the import process as part of the international trade picture.

FACTORS AGAINST THE U.S. EXPORTER FOR THE FUTURE

Although our company has not had an occasion to be nose-to-nose against the third country push to penetrate Latin American markets, we have, nonetheless, felt the impact of foreign competition and the ability of these "foreign" companies to make unusually attractive loans, or otherwise finance the sale, to buyer-prospects throughout the Western Hemisphere.

I submit that the Latin American debt crisis has had a tremendous impact on the export trader and, frequently, his bank. Many traders conclude that the crisis struck with such awesome force that the whole Latin American trade picture was thrown into shambles for about three years. It was, I believe, during this period when Far Eastern and European governments, traders and banks saw an opportunity to strike and thus gain a long-term economic foothold in our hemisphere -- a situation which would not have been possible had it not been for the debt crisis.

Today, long-term, interest-free (or almost interest-free) financing is being offered regularly to Latin American buyers by suppliers from the Far East and Europe--attractive financing packages which are tying up both Latin American markets and sources of supply and are thus disintegrating the traditional influence of the U.S. exporter throughout the Hemisphere.

The most important single factor working against the U.S. exporter trying to maintain his share of the Latin American market in this "debt crisis" business environment is, in my opinion, the inability of the exporter to get proper financing to compete with non-U.S. suppliers who are able to offer unusually attractive non-competitive financing.

I believe that these European and Far Eastern government-backed deals will continue to plague our balance of payments and hamper export growth because these "foreign" strategists realize that the U.S. exporter is desperately trying to hold his ground (1) in the midst of the Latin American debt crisis, and (2) in the face of tremendous obstacles which make competitive exporting into the Latin American market almost impossible.

I believe that solid support of the Eximbank is more critical today than ever before, and yet part of the Government's answer to our fiscal deficit has been to cut Eximbank's administrative budget. Eximbank's budget and its strategy to include steps to get the commercial banks back into the trade finance business must be reestablished if we as a nation are to keep our share of the Latin American market.

CONCLUSIONS

(1) Florida, particularly South Florida, emerged as a true Latin American trading center in the 1970's for a variety of reasons, including the abundance of petro dollars available in South Florida banks for financing exports. Exports during this period soared by more than 30 percent in 1980 to reach more than ten billion dollars.

(2) About one-third of the export traders in Florida went out of the export business with the arrival of the debt crisis in the early part of the 1980's, when Florida's exports to Latin America slid from more than ten billion dollars in 1980 and 1981 to less than eight billion dollars in 1983.

(3) Florida exports to Latin America and the Caribbean are starting to climb, and the export business has been increasing rapidly during the last year. It will probably be in the 1990's before export trade "catches up" with the level of trade enjoyed by Florida in the pre-debt crisis era.

(4) The U.S. should give stronger support to the Eximbank and more help to the trader in order to compete against European and Far Eastern companies which are gaining a foothold in Latin America and the Caribbean and positioning themselves to reap new profits as Latin America becomes a healthier market.

(5) The U.S. should take the initiative in the economic recovery of Latin America, not through massive dollar grants, but rather by implementing such programs as better guarantees for U.S. investors involved in the development process; a better format for debt equity swaps; some type of debt reduction program keyed to the purchase of U.S. goods and U.S. technological services; better channels for trade financing for the small trader; and possibly a tax break for "new to export" companies and manufacturers who tool up for the export market.

(6) Latin America is the last remaining market area where the United States has a competitive advantage. European and Far Eastern based companies are moving into the area with government-backed financial packages which make U.S. companies non-competitive.

(7) Latin America and Caribbean nations are changing as markets for U.S. products. Many countries are striving to become more self sufficient and thus decrease their dependency on imports; countries are "privatizing" their resources; markets are generally becoming more accessible to the world at large. As these fundamental changes occur, European and Japanese interests are targeting these market opportunities with all the tools they can muster. The U.S., therefore, should take a more aggressive stance in the marketing process through its support of the United States and Foreign Commercial Service as a vehicle for identifying market opportunities and helping the U.S. trader in the face of growing competition.

(8) The United States can strengthen its influence in Latin America and develop the long-term benefits of a trading partner only if the United States makes exporting a national priority, and only if the U.S. provides a greater level of assistance to the U.S. exporter who needs more help than ever before.

Respectively submitted,

Charles McKay, President
Charles McKay & Associates, Inc., Miami

Chairman, Florida
District Export Council (DEC)

Senator **Sarbanes**. Well, thank you very much for a very strong and powerful statement, as we've had from all of the witnesses.

The committee will undertake to specifically bring—I'm sure the staff of the departments will do it in any event but we want to be certain—to bring these statements to the personal attention not only of the Secretary of Commerce but to the Secretary of the Treasury. There's a tremendous amount of very important information here and some recounting of specifics that I think are very important.

In fact, Mr. Adams, I was very much struck by the charts you have on the back which indicated not only the decline in U.S. agricultural exports to Latin America but also the other points you were making, and this is the enormous increase of Latin American soy exports. Of course, what you've had is because of the pressure—my perception at least and I would ask if you would agree with this—because of the pressure that was imposed in effect to service this debt, some of those countries were forced to take economic measures they might not otherwise have taken under a normal development or growth path. For instance, they put this tremendous premium on exporting even though they had very severe needs within their own country in this very area. So you had a distortion that took place and we had not only the fact that they ceased to be a traditional and reasonable market for our exports, but they became very intense competitors internationally as reflected by the fact that they themselves became very significant exporters elsewhere in the world.

Mr. **Adams**. To give you two instances, we had a newspaper account sometime back of a train loaded with soybeans that was being exported out of Brazil. The peasants actually attacked that train trying to get some food to feed their people. That train was going out.

Argentina, for example, has had what they call the differential tax where they tax products that stay in the country and then remove that tax if they are exported. There's been quite a bit of filing of 301 complaints and other items against that particular practice. Argentina several times has promised to remove or to mute it to some degree, but on a consistent basis they have refused to; and we feel like primarily because of the pressure they have of this panic exporting where they just absolutely have to export in order to service those debts, no matter what cost it is to the people or to their long-term benefit of the whole country.

DEBT SERVICING

Senator **Sarbanes**. As I said at the outset, part of the genesis for this hearing came from Senator Graham who has long tried to put his finger right on the connection between debt and trade. I have been sensitized to that a number of years ago at the time when the U.S. position on debt was—we were back with Donald Regan, which was really to impose austerity on these countries in order to meet their financial debts. Baker tried to get onto a growth path and Brady, to his credit, has adopted the concept of debt reduction, which I think is essential if we're going to find some way to work out of it. Now the magnitude and the techniques may not be adequate, but at least the conceptual framework represents a vast improvement.

At the time when Donald Regan was pursuing this, I think, virtually mindless policy, I was at a symposium in which a representative of one of our high technology industries in this country in aircrafts, a major exporter, almost got into a fistfight with the representative of one of the major U.S. money center banks. In effect, the argument was the Government was pursuing a policy of imposing this austerity which was designed to force these countries to earn the foreign exchange with which to meet their debt obligations and one very direct consequence of that is that markets that were otherwise available to the export of our products are being completely eliminated.

So in effect what's happening, if you link it together, is that American producers were in effect being squeezed out or forced to the side in order to compel these countries to pursue a policy which would enable them to pay the American financial institutions.

Now I in a sense want them both to participate, but there's got to be some reasonable balance in this thing and I think this whole effort to address this Third World debt situation and get some growth is at that.

TIE BETWEEN TRADE AND DEBT

Do you think—I'll ask any member of the panel who wants to respond to this—other countries see more clearly this tie between trade and debt and that the governments pursue—you heard me talking with Secretary Mosbacher—that the governments pursue a policy in terms of how they try to set the general framework which is more helpful and responsive and sympathetic to the needs of their private concerns as they seek to address these export possibilities? What's your perception? Are we sort of behind our Government in being of assistance or is it all about the same as you look around at the competitive situation worldwide?

Mr. ADAMS. Mr. Chairman, from what little experience I've had I would agree with you that it is a problem.

I just recently read a book David Halberstom wrote called "The Reckoning" and I would recommend it to anyone. What he did was contrast what was going on in the automobile industry in Japan versus what was happening here in the United States. And their total policy was focused on exporting and what have you and we were looking inwardly the whole time, governmentwise and everybody else.

Senator SARBANES. Mr. McKay.

Mr. McKAY. I am thoroughly convinced that Government has a very antiquated and underbudgeted program to support the U.S. exporter.

We had flight capital and petrodollars coming into the United States in the 1970's which encouraged the exporters to develop markets. When the debt crisis came, Europe and Japan specifically developed a new trade strategy to wedge their way into our foreign markets. I am aware of cases where Far East companies have offered equipment in the power generation field to Latin American buyers with twenty years freedom before they start collecting interest on the unpaid balance. It's absurd. Thirty years financing on capital equipment which will be obsolete in five years. The Japanese and the European government-supported companies are getting a foothold in the market which is going to erode our capability to export into those countries without more support.

Senator SARBANES. Does anyone else have a comment? Mr. Jones.

Mr. JONES. I would just add that whether the U.S. Government program has been inadequate or the other countries' programs were overly generous, I don't want to debate that; but the fact is that they are not equal at all. It seems that the equality sort of stops at the OECD-mandated interest rate. Those rates are the same. But you go beyond that and you find that outside your export financing programs they have the mixed credits, which are either outright grants or very soft or very long-term loans. Even within the OECD mandates there are things that they have done that make their programs more competitive. For example, the risk premium, which is the premium paid by the exporter to the export financing institution, is typically lower in other countries.

I had someone just record, for example, the comparative risk premium if you were financing exports to Algeria. The U.S. Eximbank premium for 10 years is now 4.05 percent. Twelve years is a little higher than that at 4.22 percent. It's been announced that will go up to 6.33 percent. Under Austria's program, the comparable risk premium is 2.5 percent; France's is 3.75; Italy's is 3.0. France, for example, offers insurance coverage to exporters for their foreign exchange losses. Japan, Italy, France and Austria offer longer maturities than does the U.S. Eximbank. Japan does not charge commitment fees on the unused portion of the commitment as the U.S. Eximbank does. Others permit some 10 to 15 percent foreign content to be financed under their own export financing program. Our Government does not.

So there are many features about the program that we have to call upon from the United States that are just not competitive with other countries. So we find that we end up sourcing a significant portion on some projects from other countries where we can take advantage of other countries' export financing programs. That's really a shame because what we've done is now site the jobs in the other country which takes the jobs away from the U.S. workers.

Senator SARBANES. Mr. Kenney.

Mr. KENNEY. We recently lost a sale for 130 machines in Peru to Fiat-Allis due to an Italian soft loan. I believe it was 20 years and tied to Italian products. We've seen more and more of this type of activity in our business and I certainly have a perception that definitely in Japan there is a much more coordinated effort between the government and private industry when it comes to export trade.

Senator SARBANES. Mr. Cox.

Mr. COX. Mr. Chairman, just a quick example when I think how important market share is, and it may be an example that Senator Graham from Florida would be interested in because our world headquarters for power generation is located in Florida. We recently had a case in Argentina where we bid a job for controls in the modernization of a powerplant. We were rated No. 1 on the basis of technology and No. 1 on the basis of price. These are areas in which the government should not be helping us compete and they are the areas that we need to compete in against the foreign competition.

Unfortunately, we did not have the financing package to go along with that because the competition had a mixed credit package. And that mixed credit package when we turned to Eximbank was in fact in compliance because it was over the OECD guidelines and therefore we were not using our scarce resources to combat that particular case.

What does that mean to us? It means, No. 1, we lost that business. But it also means we lost additional add-on business because clearly they are not going to train their engineers to run those powerplants with various systems. They're going to continue to use and to emphasize those continuous systems from that other supplier for future orders. So we've lost an important opportunity for market share and I think that's a small example, but when I heard some comments that we're not concerned about market share, I think that should be a very real concern. Once we lose markets, we lose them for a long time. And if we are going to withdraw ourselves from Latin America, we're going to find that that is another market that we cannot compete in. And with the absence of our ability to compete in industrialized markets, it really leaves us with very little in the way of export business.

Senator **Sarbanes**. Mr. Kenney, from somewhere I have the understanding that Caterpillar was very hard-hit by the overvaluation of the U.S. dollar in its competitive position abroad and that handicap really had a major impact. As I understand it, prior to that you had the presence in foreign markets that was very strong, perhaps even dominant in certain situations and that the overvalued dollar and the competitive disadvantage in which that placed you resulted in you losing that position. I think the Japanese moved into a lot of it. Is that understanding of mine correct historically?

OVERVALUATION OF THE DOLLAR

Mr. **Kenney**. I can't tell you the degree but, yes, most certainly we were hurt pretty badly in the early mid-1980's by the strong U.S. dollar. We are a premium priced product, always have been, because we believe we have a better quality product. But an overvalued dollar, such as it was, merely aggravated a price disadvantage we already had and in many cases made our product far too expensive for many buyers outside the United States.

Senator **Sarbanes**. Mr. Adams, my understanding is it had a sharp impact on the agricultural export-import situation as well. Is that correct?

Mr. **Adams**. Absolutely. About a year ago I was with some farmers in Maryland and we got in a boat in the Baltimore Harbor and we were riding up and on the left and the right they kept showing me elevator after elevator that was closed down and I think it's just backed up all the way through the whole country. But it's been dramatic what has occurred.

Senator SARBANES. In fact, we're going to hold a hearing in this committee because in the trade bill we put in a provision that required the Treasury to look at the countries that were actually manipulating their currency against the U.S. dollar in order to gain a trade advantage. They weren't even letting their currency move in the marketplace. The Japanese have allowed it to do so but there are some other countries that have not. The Pacific Rim countries that are running very large surpluses. And we need to get at that because they obviously supposedly have an open free trading international system and here they are sort of working the rules to their advantage and we're going to be holding a hearing here in a couple of weeks on that point.

Well, I thank you all very much. I'm going to have to excuse myself. I'm going to turn the hearing over to Senator Graham who's been following this matter very closely. But your testimony has been very helpful. We very much appreciate the effort that went into it and we don't often do this, but the committee will undertake an effort to get this testimony to various policy makers in the administration to bring it specifically to their attention. They need to read and think about these statements and then take some action off of them.

We thank you very much and I yield the committee to Senator Graham and thank him again for his own efforts in helping to put this hearing together.

Senator GRAHAM [presiding]. Thank you very much, Mr. Chairman.

I'd just make an editorial statement before I start asking question. What we are engaged in here is a recurring issue in American economic history. That is the conflict between what I would describe as the protection of old money versus the encouragement of new money. For the last decade we've had a policy that essentially has said that the United States would take a passive role vis-a-vis the debt issue, particularly in Latin America, because we did not want to be sullied by involvement in dealing with the status of old money that had been committed to debts into that area in the 1970's and early 1980's. The price for that has been paid by the people who are on this panel and the companies that they represent who are the entrepreneurial spirit of this country trying to build a broader base of business for America.

Senator SARBANES. I think that's a very perceptive observation. I would only add to it this. It's the creation of the new money that usually results in the creation of jobs for our people. Thank you all very much.

Senator GRAHAM. The Secretary of Commerce in discussing the willingness of the Federal Government to be involved in more aggressive export promotion and particularly export financing initiatives stated the basic position of the Government, which is that we prefer that our competitor exporting countries, whether they are in Asia or Europe, desist from these practices rather than the United States having to meet those practices.

EXPORT FINANCING SUPPORT

How successful has U.S. policy of attempting to get Asian and European export competitors to desist been? Do you see over the last 5 or 10 years a trendline of less export financing support from the major countries with which you compete, about the same, or an increasing level?

Mr. McKAY. A dramatic increase.

Senator GRAHAM. A dramatic increase in export financing support by those countries which are our principal competitors.

Mr. McKAY. Yes, sir. That's my observation.

Senator GRAHAM. Mr. Adams?

Mr. ADAMS. Yes, sir. Absolutely. The competition has stepped up. I would draw somewhat of an analogy between what this country has done with Russia as far as defense. We put the pressure on them with defense expenditures and I think they have reacted to it. They've had to. It does not make sense to me as a farmer not to put the pressure on the competition to really bring them to the bargaining table with whatever commitments are needed to force some policy changes.

We today see Europeans, for example, still subsidizing the soybeans at $15 to $28 per bushel where the world price is $6 per bushel. They may have to export it because of induced production. We're seeing the Argentines have persisted in using differential taxes. We have not had the nerve or the willingness to go after them to make them roll back to where we have this proverbial level playing field.

Senator GRAHAM. Mr. Cox.

Mr. COX. Senator, I think it's very important to encourage the administration to continue the negotiations at the OECD. I think it's also important to recognize though that in order to negotiate seriously we need to have something that the competition is going to understand that we're willing to match on those selected cases. Without that, I think it's difficult to understand how the foreign competitors will in fact have their governments negotiate with us seriously. So I think it's important.

Mr. KENNEY. I would second that comment. In our industry we certainly have not seen a decline in export financing in Latin America and, if anything, it's significantly increased.

Mr. JONES. I would agree that we have become less competitive in terms of the financing assistance available from the United States versus other countries.

It seems to us that the other countries have made a decision that they would just as soon spend the money on financial assistance for exports as on welfare.

Senator GRAHAM. I would be interested if any of you could supplement the observations and conclusions that you have just stated with some empirical data as to that trendline of the relative United States and competitor nations position in terms of export finance.

To me there's a certain irony here in our strategic relationships with our main competitor, the Soviet Union. We've taken the position that one achieves success by a demonstration of strength. If the Soviets add a weapon system, it will not be long before we are matching them with that weapon system. We don't take the position that we will stand back in a passive role and allow our strategic competitor to be constantly adding to its advantage with our hope that by negotiation they will see the light and do better.

But it appears as if in economic competition that's essentially the role that we've taken and our competitors have gotten into the situation of now multiple warhead superiority over us economically and we are paying the price. End of further editorial comment.

I'm very interested in what I call the 2010 question. That is, what should the United States' objective be in terms of our economic relations, particularly within this hemisphere. From the perspective of your experience, what do you think our 20-year plan ought to be?

Then the followup question is, what should we be doing today that will be a step toward that 20-year plan?

20-YEAR PLAN

Mr. **Adams**. I think, No. 1, from a farmer's perspective, we've got to have world economic growth. This stagnation we've gone through the last few years of the gridlocking effect on the debt, we have to go in and somehow or other break that Gordian knot and start growth again that we saw in the 1970's. Now I don't think it needs to be artificial growth, but I think it is just critical that we have economic growth. There's got to be some policy changes on our part. We can build relationships that way. Long term, we've got terrific problems, for example, in Brazil. If we, in effect, are raising a nation of cretins down there because they just don't have enough protein for the children to develop mentally as they should, that has terrible implications for us long term for that country.

So I think we've got to go into Brazil and teach them how to use some of their products to raise the diets of the people and yet at the same time give them some relief so that they don't have to just export. We have gone to the Foreign Agricultural Service and asked them on behalf of the American Soybean Association to have some projects to teach the Brazilians how to feed their people and that has been rejected several times because they don't think that's our proper place. But we feel like we have the best expertise along that line of anyone in the world and we think long term it would be beneficial for both countries.

What we're asking for is take a broad view and broad goals to make sure that long term they are prosperous and I think we will be prosperous, too.

Senator **Graham**. Anyone else like to contribute to that question?

Mr. **McKay**. I have a comment, Senator. I think in the next 30 or 40 years that we will see a greater level of interdependence amongst the nations in Latin America and the United States.

Here this afternoon I heard a lot about Mexico. Those of us in the front line in trading in Latin America really look at Mexico and Brazil as a couple of other superpowers that really are not Latin America. We look at the Andean countries and Chile and Ecuador and Colombia and Venezuela and Central American countries—that's what Latin America is made of and that's where we're going to have to see a greater level of interdependence and a greater level of involvement on our part.

If we do, then some day we will see the United States enjoy a free trade status with those countries, possibly excluding Brazil and Mexico because of their very unique position.

So I see, in the long term, a free trade environment for Latin America except for those two countries and I believe that we must take two steps today to get there tomorrow: hardball in terms of our trade policy, and, 2, a stronger commitment to put exporting as a national priority. Thank you.

Senator GRAHAM. It was referred to in the Secretary's comments and in several of yours the importance of internal economic reforms within the countries of Latin America.

INTERNAL ECONOMIC REFORMS IN LATIN AMERICA

I would be interested in your evaluation of the United States efforts to date in terms of their effectiveness in achieving those internal reforms and what additional or different initiatives would you suggest that we ought to be considering as a means of accomplishing the objective of internal reform in a Latin nation.

Mr. COX. Senator, just in terms of I think it is important to emphasize internal reform and to continue that, but I think also we must strike a balance between total concentration on internal economic reform and the need for infrastructure growth of those economies. Those economies are never going to be healthy unless they grow economically themselves. And the way we do that I think is to have a comprehensive policy that emphasizes support from the private sector in the United States, encouraging trade with those countries, and yet at the same time encouraging them to have internal economic reform. So I think we need a balance between the two.

Senator GRAHAM. Any other comments on the effectiveness of our efforts to date and any additional initiatives?

Mr. ADAMS. I think, again, we've got to make sure those people are fed and are not malnourished, from my perspective.

The Argentines told us not long ago when we were talking to a group of Argentine exporters of soybeans—they told us at the time they really didn't care about exporting soybeans but what they really were having is an opportunity to speculate on currency by holding a good. So I think that does call for some long-term reforms along that line, too, internally.

Senator GRAHAM. One last question that I have is the role of the U.S. official representatives within these nations. Do you have any comments as to how effective the commercial aspects of U.S. embassies in Latin countries have been? I say this in the context that over the last 10 years there's been an effort made to place in positions of commercial responsibility within our embassies individuals who had a greater awareness of and personal background in business-related issues. Your comments as to how effective those are as supporters and advocates of U.S. economic interests.

Mr. MCKAY. I think we should be very proud of the professional network of the United States and FCS members abroad. I think they largely have come from the private sector. They are very highly motivated and they have a tremendous task because of budgetary restraints.

Our Florida DEC organizations recently supported Virginia Cribbers from Jacksonville, made it possible for her to go to Mexico last week on a trade mission. The private sector had to support it because there were not funds from her district to pay for her trip. Private sector funding is helping the U.S. & FCS make some of these things happen.

I say the U.S. & FCS people need increased funding to help them do a better job.

Senator **GRAHAM**. Mr. McKay, I understand that you have recently circulated to a number of Florida firms involved in export a questionnaire asking opinions on various aspects of the issue we've been discussing today.

I would appreciate, when you have those results available, if you could provide them.

Mr. **MCKAY**. I will do it.

Senator **GRAHAM**. Thank you.

I want to express my appreciation to each of you for the time and obvious very intense interest that you have given to this subject. Your contributions have been extremely helpful. I think it's critical if we are to raise the sense of urgency for dealing with these economic relations within our hemisphere that we appreciate the price that we are paying. It's not just what's happening in Mexico or the Dominican Republic or Argentina. It's what's happening to jobs in Peoria, in Camilla, and in Miami being directly affected by the actions or lack of effective actions that this Government is taking. You have given us some very strong evidence that I hope will help to energize United States policy.

Thank you very much.

[Whereupon, at 12:50 p.m., the hearing was adjourned.]

[Additional material supplied for the record follows:]

ANSWER TO QUESTIONS FROM SENATOR GARN TO SECRETARY MOSBACHER

Q.1. Most of our industry witnesses emphasized the importance of competitive trade finance in winning sales in Latin America, and called for a stronger Export-Import Bank. You did not mention Eximbank at all in your written testimony. Do you see a role for Eximbank? What should Eximbank do to address government-assisted import penetration in Latin America by foreign governments?

Answer. In my testimony I stressed the importance of competitive financing in winning U.S. sales in Latin America. The Administration's policy is to extend the Eximbank's War Chest to $110 million and to intensify negotiations through the OECD to curb the mixed credit practices of the other industrialized countries. I believe that the Bank has a vital role to play in ensuring that U.S. exporters are not put at an intolerable disadvantage in competing for business in the region. The predatory practice of subsidizing exports has to be curbed.

As commercial banks have largely withdrawn from financing exports, the emerging task of Eximbank is to bridge the gap between the U.S. exporting and banking communities. During FY1988, Eximbank extended $400 million of long- and medium-term loans, guarantees, and insurance in support of specific larger export sales to Latin America. Eximbank also authorized $2 billion of short-term export credit insurance to sustain ongoing U.S. trade with Latin America.

The Bank has vigorously pursued innovative forms of finance in order to minimize country risk and yet allow greater support in difficult markets. Examples of such initiatives include asset-based financing for jet aircraft to the Brazilian airline Varig and loans to a well-managed regional development bank for the Andean Pact countries, allowing lending to be extended to economically troubled markets such as Ecuador, Peru, and Bolivia.

The Bank is, however, constrained by resource limitations. For the last two fiscal years the demand for Eximbank loans has exceeded its annual ceiling, although Eximbank has been able to satisfy exporters' needs in part by delaying approval of final commitments temporarily until subsequent fiscal years. This "robbing Peter to pay Paul" approach puts the assurance of Eximbank support at some risk, to the detriment of the U.S. export community and the overall U.S. trade picture.

Q.2. Your testimony cites various projections of "lost" exports to Latin America due to the debt crisis--ranging from $50 billion to $130 billion--all based on 1980-81 export levels you recognized as "abnormally high." If we take the longer view that the U.S. export share to high debt LDCs has declined from 14% of imports in 1970 to under 13% now, this 1-1.5% of indebted country imports represents an annual "loss" of roughly $1 billion. Is not this lost share a more realistic estimate of lost U.S. export sales? What steps are necessary to defend U.S. market share?

Answer. I would contend that calculating the cost to U.S. exporters caused by the Latin American debt crisis based on changes in the U.S. share of the high-debt LDCs' imports is not the best approach. The point is that Latin American countries, in order to deal with their severe debt problems, had to sharply curtail their imports. The United States, as the largest exporter to Latin America, suffered particularly severely from reduced Latin American import demand, though exporters everywhere were hard hit.

The range I gave of "lost" U.S. exports to Latin America in the 1982-88 period of $50 billion to $130 billion is broad. This range illustrates that estimates of lost exports will vary dramatically depending on the assumptions made. As for the realism of the $50 billion figure, it is reasonable to assume U.S. exports to Latin America would have held steady at their 1980-81 average for the following seven years, were it not for the debt crisis. The value of the "lost" exports could then be calculated using this assumption.

As for defending the U.S. market share, the U.S. share of the industrial countries' exports to Latin America was higher in 1988 than in any other year during the 1980s. A high U.S. market share requires, among other things: maintaining the dollar exchange rate at competitive levels; aggressive and innovative marketing by U.S. exporters; and ensuring a "level playing field" with respect to such variables as trade financing. Maintaining a high level of U.S. exports depends heavily on restoration of economic health to Latin America and faster economic growth there. For these developments to occur, Latin American debt-servicing difficulties must be eased.

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December 6, 1989

Senator Paul S. Sarbanes
United States Senator
Washington, DC 20510-6075

Dear Senator Sarbanes,

Thank you for your letter of November 2, 1989, relating to my recent testimony before the Subcommittee. I was pleased to have the opportunity to participate, and greatly appreciated the interest you displayed in a topic which is very important to Caterpillar.

Following are my responses to the questions posed by Senator Garn:

Q.1 How are foreign banks able to offer financing, while US banks are not?

A. I believe there are two reasons for this phenomena in Latin America.

First, US banks were the primary source of commercial bank financing for Latin America prior to the "crash" in 1981. As such, they were more severely impacted by the debt crisis than their foreign counterparts, and are now more reluctant to provide new financing to the region. The reasons for this reluctance are varied, but include forced bad debt provisions, overall profitability problems and shareholder pressures to avoid additional exposure in the riskier parts of the world.

Second, foreign banks appear to be receiving more government support for their financing to Latin America, allowing them to continue to provide financing with some protection from the associated risks. U.S. Banks have not been similarly encouraged, as FCIA and Eximbank support has been limited since the onset of the debt crisis.

It is important to note that not all foreign financing is coming from banks. Foreign trading companies - particularly Japanese - are becoming increasingly more active in Latin America, offering both countertrade deals and financing in support of home-based exporters. Financing from trading companies is often more difficult to compete with than financing from foreign banks.

As mentioned during my testimony, foreign government tied loans have resulted in significant lost sales for us. We are also unable to compete with government-supported mixed credit financing, since we have no mixed credit sources in the U.S.

Q.2 Is it possible for US exporters to secure financing abroad?

A. It is possible, but only to a limited extent. We have had some success in securing financing through Japanese trading companies. However, the trading companies sometimes have "exclusives" with home-based suppliers which prevent them from doing business with us. We have occasionally been able to take advantage of foreign government financing programs, but only for those few models which we manufacture in the involved countries. We have had little success in obtaining financing from foreign banks.

Once again, thank you for the opportunity to testify. If I can be of any further assistance, please let me know.

Very truly yours,

B Mark Kenney

Secretary Treasurer

BMKenney
Telephone: 309/675-4775
djr\BMK\L3180150

NATIONAL ASSOCIATION OF MANUFACTURERS

Issue Brief

A PUBLIC POLICY SUMMARY

Export Financing, Manufactured Exports and the Trade Deficit

A competitive export financing system is critical for continued growth of U.S. exports. This is especially true for the United States since 45 percent of U.S. exports are capital goods that often require export financing. Unfortunately, real questions exist about the competitiveness of the U.S. export financing system today.

ISSUE

Continued improvement in the U.S. trade performance will require a major improvement in the U.S. manufactures trade balance. A major improvement in the manufactures trade balance, in turn, depends, in part, on a strong performance by U.S. capital goods exports. And a strong performance in U.S. capital goods exports requires, among other actions, a competitive export financing system that includes a strong, aggressive Eximbank.

BACKGROUND

Any objective analysis of the numbers clearly shows that only an improved performance in manufactured goods can turn around the U.S. trade deficit--other factors such as services and agriculture trade are simply too small. Assume for the sake of argument that tomorrow we could return our service and agricultural trade balances to the record surpluses we enjoyed in the early 1980s--about $10 billion for services and $20 billion for agriculture. If we could achieve such a feat, we would only offset about 30 percent of our $106 billion deficit in manufacturing products. Manufactured goods account for approximately 70 percent of what we export each year and roughly 75 percent of what we import. Given these figures, it is difficult to see how U.S. trade problems will be corrected without continued improvement in our manufactures trade balance, achieved in part through export expansion. And improvement in our manufactured exports depends heavily on capital goods exports.

Approximately 45 percent of U.S. manufactured goods exports are capital goods. Compared with the other three major sectors of manufactured exports, capital goods exports are dominant. They are about one-third larger than exports in the industrial supplies and materials sector, more than three times the size of our exports in the automotive products sector, and more than five times larger than U.S. exports of consumer goods.

The degree to which the United States is dependent on big ticket export items was recently confirmed in an important Commerce Department study which provided a profile of U.S. manufactured exports. This is the first time such a study has been made. It found that a tiny percentage of U.S. exporters--2.5 percent--selling big ticket items averaging $100,000 and up accounted for 25 percent of the total value of U.S. exports. On the other end of the scale, the study found the vast bulk of U.S. exporters--nearly 60 percent--has export shipments averaging less than $10,000 but account for only about 7 percent of the total value of our exports.

While it is very important to encourage more medium- and small-sized U.S. companies into the export business, it is also necessary to recognize the importance that big-ticket, capital-goods products play in the overall U.S. export performance. In short, it would be no exaggeration to say that "how goes U.S. capital goods exports, so go U.S. manufactured exports and U.S. exports overall."

STATUS

It is clear one of the elements that makes capital goods exports "go" is competitive export financing. Unfortunately, real questions exist about the competitiveness of the U.S. export financing system today. For the better part of this decade, the needs of U.S. exporters and U.S. commercial banks have been headed in different directions. U.S. exporters during the 1980s have found that overseas markets have become riskier, transactions smaller in value, sales harder to close and demand for credit higher. At the same time, U.S. commercial banks have found it increasingly difficult to maintain export financing departments, especially in the era of domestic bank deregulation. A report by a House Banking Subcommittee last year found that of those banks staying in trade-related activities, more than 50 percent were import- rather than export-oriented. Factors contributing to the reluctance of commercial banks to continue export financing include the Third World debt crisis, the lack of profitability in export financing, the low success ratio of turning export opportunities into actual business, and various regulatory and tax policies.

On the official export financing side, since 1981, we have seen the Eximbank's direct loan budget cut by about 85 percent: from $4.7 billion to approximately $700-million. In almost every year recently, there has been great uncertainty about the very existence of the direct loan program. Despite this uncertainty and the severely reduced levels of funding, Eximbank still accounts for 5 percent to 10 percent of total product sales of important capital goods industries--sales that establish an enormously important strategic presence for U.S. industry in key markets around the world.

The cuts in Eximbank's budget might have been OK if our foreign competitors were facing the same drastic cutbacks. They aren't. While direct credit offers by industrial countries have indeed fallen over this decade, they still have been running at a good clip: $9.5 billion in 1986, $8 billion in 1987 and $12.5 billion in 1988.

And we should remember that as international agreements to limit official export financing practices took hold in the mid-1980s, most industrial nations moved over the export financing game to the playing field of mixed credits--the combination of official financing and foreign aid. Last year, according to Exim, mixed credit offers probably topped $15 billion. In a recent study, the bank estimated that the United States loses between $400-800 million a year in exports because of mixed credits. An economist in the private sector, using the same data and methodology as the Exim study, estimates that the losses are in the order of $2.4-4.8 billion per year.

To counter this aggressive financing, the United States has limped along with an underfunded mixed credit program and a foreign aid program which virtually abandoned capital project assistance in the mid-1970s. About 2 percent of U.S. foreign aid goes to capital project assistance, compared with 15 percent for the United Kingdom, 20 percent for Germany and 45 percent for Japan. And Japanese bilateral foreign aid now exceeds that of the United States.

The Eximbank report on mixed credit, mentioned above, states that "a four to six billion dollar market of capital goods transactions in certain less developed country markets may remain largely inaccessible to U.S. exporters." Total U.S. capital goods exports to the developing nations of Latin America, Asia and Africa come to around $16 billion. So we are talking about the United States being cut out of capital goods markets equal to between 25 to 40 percent of our total exports of such products to these developing nations!

Let's put these numbers on official export financing, and mixed credits into perspective. In 1982, the OECD nations probably offered about $22-23 billion in this type of aggressive export financing: $20 billion in direct credits and $2 billion in mixed credits/tied aid offerings. At the end of this decade, we are talking about roughly the same level of total finance offerings--$22-23 billion--but it is now much more aggressive since almost 70 percent of the offerings--$15 billion--are mixed credits/tied aid. In short, export financing is being used as much as ever and more aggressively than ever to capture key capital goods markets.

NAM POLICY

Steps to begin to address the situation and strengthen our export finance system include: (1) maintaining the Eximbank's direct loan program for FY 1990 at FY 1989 levels ($695 million) and using the direct loan program and the guarantee program to assist in rejuvenating commercial export financing in this country; (2) providing greater support for capital goods projects under our foreign aid program as a legitimate and necessary means of promoting both economic development and U.S. trade interests in countries that receive such assistance (Egypt, The Philippines and Pakistan, for example); and (3) putting forward and forcefully implementing a credible mixed credit program that focuses on those critical markets in the developing world that receive little, if any, U.S. foreign aid (India, for example) and hence would not be covered in the capital assistance program just mentioned.

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June 1989

Draft

U.S. Export Competitiveness in Developing Countries:
The Tied Aid Credit Issue

by Ernest H. Preeg

For the Exim Bank Advisory Committee

September 14, 1989

Draft: September 14, 1989

U.S. Export Competitiveness in Developing Countries:
The Tied Aid Credit Issue

I. Introduction and Executive Summary

II. The Adverse Impact on U.S. Exports

III. A Decade of Change in Official Export Finance

IV. The Trade/Aid Interface

V. The U.S. Policy Response to Date

VI. A Recommended Action Program

VII. The New Realities of the U.S.-Developing Country Relationship

I. Introduction and Executive Summary

Official export finance is a dimension of overall U.S. trade competitiveness that has received low to zero priority in recent years. The U.S. Export-Import Bank (Exim) faces severe budget constraints and criticism as a provider of export subsidies to big business. The U.S. economic aid program concentrates on direct help to the poorest people and balance of payments support to strategically important governments rather than on projects that utilize U.S. exports. The Council on Competitiveness has ignored the issue completely.

The fact is, however, that official export finance is a major aspect of U.S. trade competitiveness in one key area: high-tech industry exports to the developing countries, particularly the more advanced or newly industrializing countries of Asia and Latin America. Moreover, our trade competitors have been enhancing their export finance support in this area during the 1980s, largely through economic aid, or "tied aid credits," and a further buildup is likely during the 1990s.

This report examines the changes that have taken place in the pattern of official export finance and how U.S. exports have been affected. A critique of existing U.S. policy leads to proposals for a more forceful, comprehensive approach.

The following are highlights:

-- The current market for capital goods transactions in such sectors as telecommunications, power generation, computers, and transportation that is inaccessible to U.S. exporters because of tied aid credit practices of other governments is $10-12 billion per year, resulting in an estimated annual loss to U.S. exports of $2.4-4.8 billion. Future U.S. export loss in high-growth developing country markets could be far greater. These figures are much higher than the $4-6 billion market scope and $400-800 million estimated U.S. export loss contained in the April 1989 Exim report to the Congress because the latter figures were based on a limited scope of tied aid practices for an earlier, no longer representative period.

-- The composition of bilateral official export finance during the 1980s has shifted away from long-term credits at normal terms and toward tied aid credits. For capital goods sectors where these are competing sources of finance, tied aid credits were only about half the level of credits at normal terms in 1982, while they exceeded substantially normal terms credit in 1987-1988. The U.S. share of combined export finance at normal and concessionary terms for such capital projects declined from 10 percent of the total for all OECD countries in 1982 to about 5 percent in 1988. Bilateral tied aid credits have also been rising relative to untied projects by the multilateral development banks (MDBs) and have an especially high concentration in the telecommunications sector.

-- An effective policy response to the tied aid credit issue needs to integrate export competitiveness, development assistance, and foreign policy objectives. The United States has been unable to do this, in large part because executive branch agency mandates and congressional committee jurisdictions separate these objectives and there is no integrating mechanism. Japan and other aid donors follow a more integrated approach, but with commercial interests often the dominant force.

-- As a consequence, the U.S. policy response to the tied aid credit issue to date has been reactive, piecemeal, and generally ineffective. The U.S. mixed credit program has never received budget appropriation. The Exim Bank "War Chest" helped some U.S. exporters over the past couple of years, but it lacks operational guidelines and policy objectives. The 1986 OECD agreement to increase the minimum grant element of tied aid credits from 25 to 35 percent has had little apparent impact since other donors had already been increasing the grant element for other reasons. More comprehensive proposals put forward by the United States in the OECD Development Assistance Committee lacked bargaining leverage and high-level follow through.

-- A more comprehensive U.S. policy response would consist of the following elements:

(a) A restructured Exim War Chest facility operating as a mixed credit program to meet mixed credit bids by other donors, within broad development guidelines. The budget cost would be $200 million per year of additional Exim

funding, which would permit about $500 million per year of project support.

(b) A new capital projects program within the U.S. Agency for International Development (AID.). Some existing aid funding in such country programs as the Philippines, Indonesia, Pakistan, and Egypt could be used, but additional budget support of $500 million would be phased in over a couple of years, to permit a project program of over $1 billion per year.

(c) A broad strategy for capital project assistance to be negotiated with other donor countries. The objectives would be to curb commercially motivated capital project assistance and commit the remainder to sound development criteria and priorities.

-- Annual budget appropriations of $700 million (for the War Chest and Capital Projects Program) may appear unrealistic in the current budget circumstances and will likely be resisted by executive agencies and legislative committees concerned about offsetting cuts in existing programs. What is at stake, however, is a fundamental rethinking of U.S. interests in the more advanced developing countries and the need to give the economic--and the export competitive--dimensions higher budget as well as rhetorical priority.

To put this final point in broader context, a brief introductory comment is in order on the critical importance of export competitiveness both to U.S. economic well-being and to the evolving role of the United States as a world power. This is the underlying and compelling justification for providing export finance facilities to U.S. exporters comparable to that available to their principal competitors.

The global economy is being transformed by unprecedented, rapid technological change and geographic broadening of the industrialization process beyond the advanced industrialized countries to the developing countries of Asia and Latin America in particular. Corporate strategies, for small as well as large firms, have to adjust to this changed competitive environment of global proportions if they are to prosper or indeed survive.

Prospects for the U.S. economy have likewise been changed greatly by this trend toward a global, technology-driven world economy. Import dependency as a share of gross domestic product has tripled from 3 percent in 1960 to 9 percent today. The comfortable, broadly based U.S. technological lead of a decade or two ago has been greatly eroded and in some sectors lost, particularly to Japan. The huge U.S. trade deficit since the mid-1980s has converted the United States from the largest creditor nation to the largest debtor, with external debt growing at $10 billion per month.

Enhanced trade competitiveness has become, as a consequence, vital for economic growth and technological advance in the U.S. economy. Most immediately, reduction in the trade deficit either will be achieved through export growth or it will be a result of recession in the U.S. economy, with serious global repercussions.

Over the longer term, a continuing loss of trade competitiveness in such key sectors as semiconductors, telecommunications, and machine tools will reduce living standards in the United States compared to other nations and threaten U.S. defense superiority in advanced technology weapons systems.

The response needs to be multi-faceted: strengthened education and worker training programs, fiscal and other incentives to promote R&D and investment in plant and equipment, a competitive business environment that forces companies to modernize and market more aggressively, a trade policy that assures comparable access to foreign markets, and macroeconomic policies that provide exchange and interest rates conducive to bringing external accounts back into balance.

U.S. export growth in developing countries needs the benefit of such a comprehensive competitiveness strategy. In addition, however, this important segment of exports needs special emphasis and support for two reasons. First, these are markets of high potential growth. Established market position now by U.S. firms in these countries has strategic importance for longer-term export development and growth. Recent U.S. export performance in this regard should be a cause for great concern. For example, an AID study projects export market opportunities in developing countries in the electric power sector alone to range from $370 to $900 billion over the next 20 years, while U.S. market share in the sector has dropped from over 20 percent in the late 1970s to less than 10 percent today.[1]

The second reason is that industrialized country policies influencing exports to developing countries are more wide-ranging and more decisive. A strategy for export competitiveness needs to integrate the various strands of policy--trade, investment, aid, and finance--to assure balanced competition. Official export finance, including tied aid credits in sectors of direct commercial competition, is at the center of this policy interrelationship.

II. The Adverse Impact on U.S. Exports

The bottom line question about tied aid credit practices of other countries is the extent of adverse impact on U.S. exports, currently and over the longer term. What is the scope of market transactions affected, and what is the estimated annual loss in sales?

These questions are of immediate concern because the tied aid credit issue has been reviewed at cabinet level by the Economic Policy Committee based on answers contained in an April 1989 report to the Congress. This report, transmitted by the acting president of the Exim, was mandated by the 1988 Omnibus Trade and Competitiveness Act, and was prepared by an interagency task force. It has been reported that the conclusions of the report reflect differences of view among executive branch agencies and that the OMB played a particularly influential role in the final assessment.[2]

Unfortunately, the report gives an incomplete and out-of-date estimate of U.S. export losses from tied aid credit practices, which greatly understates the actual impact. The report concludes that a four to six billion dollar market of capital goods transactions in developing country markets may remain largely inaccessible to U.S. exporters from tied credit practices, and that, as a result, the United States may be experiencing $400 to $800 million a year in lost sales.

A more complete and up-to-date estimate is presented here which indicates a current market of capital goods transactions of $10-12 billion inaccessible to U.S. exporters, and a resulting annual loss in U.S. exports in the order of $2.4-4.8 billion. Moreover, in view of the qualitative aspects of the export markets at stake, the longer run losses to U.S. exports are likely to be of far more serious proportions.

The market scope difference is summarized in Table 1. The interagency report figure of $4-6 billion per year is based on bilateral official development assistance--or ODA--commitments for capital projects by six major donors--Canada, the Federal Republic of Germany, France, Italy, Japan, and the United Kingdom--during the years 1984-1987. The annual levels range from $3.5 to $6.8 billion as shown in the first line of the table.

However, these figures represent only part of the total tied aid credits. The six donor countries account for about 75 percent of total tied aid credits, as expressly noted in the report, and therefore exclude a considerable volume of capital projects by the Scandinavian countries, Belgium, the Netherlands, Switzerland, Austria, Spain, and Australia. An adjustment for these countries is made in line 2 of the table.

In addition, ODA commitments exclude most of what are called "mixed credits," whereby grant aid is mixed with long-term official credit at normal terms to obtain a blended overall credit with a grant element of at least 35 percent. However,

Table 1
Market for Capital Projects
Inacessible to U.S. Exporters
($ billions)

		1984	1985	1986	1987	1988
1.	ODA Commitments for Capital Projects by Six Donors	5.2	3.5	4.1	6.8	-
2.	Estimated ODA Commitments by all OECD Countries (except the United States)	6.6	4.5	5.2	8.6	9.0(E)
3.	Estimated Long Term Loan Portion of Mixed Credits	2.5	N.A.	2.0	1.8	3.0
4.	South Korea, Taiwan	0	0	0	0	0.1
5.	Total of Market Incessible to U.S. Exporters (2+3+4)	9.1	N.A.	7.2	10.4	12.1

Source: ODA commitments for 1984-1987 from, Report to the U.S. Congress on Tied Aid Credit Practises, (Exim, April 1989); long term official export credits from, Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, (Exim, June 1988 and June 1989); estimates as explained in the text.

only the grant portion of such mixed credits is reported as ODA by most OECD countries even though the entire loan is a tied aid credit that effectively excludes participation by U.S. exporters. There are no available figures on the amount of official long-term credit at normal terms that form part of mixed credits, but OECD staff have indicated it could be as high as one-third of total long-term credits. A more conservative figure of 25 percent of such credits is included in line 3 of the table. (The source for long-term credit figures is the Exim, as explained in the next section.)

A final adjustment, in line 4, is the initial figure for the new South Korean aid program which consists principally of tied aid capital projects; commitments were $68 million in 1988 and will rise to about $120 million in 1989. Taiwan has begun a similar program in 1989 with a capital base of over $1 billion. This line in the table will clearly be on the rise in 1989 and beyond.

Table 1 also shows why the 1984-1987, in terms of a range, is out of date. The exchange rate adjustments of 1985-1986 alone have almost doubled the dollar levels of the Japanese and some European programs, which first shows up clearly in 1987. The report states that "tied aid credit offers are, in many cases, expanding," an assessment supported by discussions at the OECD export credit meeting in May 1989. The increasing competition to bid on mixed credit projects has put pressure on such donors as Canada and Australia to place greater emphasis on capital project

assistance. Ironically, one donor representative commented informally that the revaluation of the dollar has made U.S. exports more competitive and thus has increased pressure from domestic industry for more tied aid credits. For these various reasons, an estimated 5 percent increase in 1988 to $9 billion of ODA commitments by other donors is given in the table.

In sum, an estimated level of current market scope affected by tied aid credits of other bilateral donors, based on the more recent period 1987-1988 is $10.4-12.1 billion, as shown in the bottom line of Table 1, which can be rounded to $10-12 billion.

The Exim report goes on to estimate an annual loss of U.S. exports based on a survey of U.S. companies. Again, however, the estimate greatly underestimates the full, current adverse impact on U.S. exports. In part, this also reflects the use of an earlier, non-representative period. In addition, the company survey is limited to only part of total tied aid credits, and no attempt is made to extrapolate the results. The survey is limited to a sample of U.S. companies in five sub-sectors of capital goods industries. It only deals with projects where there is a form of competitive bidding among donor countries, which excludes, for example, most of the Japanese capital project program. Project loans with a grant element of 50 percent or more are also excluded from the survey.

Adjustments for these various exclusions can readily be made, based on information contained in the Exim report, and is done in the Annex to this report. The revised estimate of current losses to U.S. exports is $2.4-4.8 billion per year.

This revised quantitative estimate of current export loss, moreover, needs to be assessed in qualitative terms with respect to potential U.S. exports over the longer term. Tied aid capital projects are in technology-intensive industries where U.S. companies compete directly with Japanese, European, and Canadian counterparts. The establishment of U.S. companies in high-growth developing country markets, experience in doing business in the national environment, local familiarity with U.S.-drawn engineering specifications, and adoption of U.S. technology standards, can have a multiplier effect on future sales in such sectors as telecommunications, computers, and power generation.

The concentration of tied aid credits in particular industries within the overall capital goods sector is an indication of the strategic importance such projects can hold for broader market participation. Engineering services, for example, are key to establishing engineering specifications for equipment procurement and managing overall project design and implementation. Japan, as a consequence, ties the engineering/consultancy portion of every capital project loan to Japanese engineering firms while opening much of the procurement to international competitive bidding.[3] The de facto experience is that once the detailed engineering specifications are drawn up by a Japanese firm, procurement of major capital equipment is awarded to Japanese suppliers. Another donor country technique is to offer engineering services for large projects on a grant basis while equipment procurement is financed by loans. U.S. engineering firms, in contrast, rarely benefit from tied aid credits or grants, and have been steadily losing market share, particularly in Asia.

Another sector that receives extra generous treatment from tied aid credits is telecommunications, as described in greater detail in the following section. Yet another disturbing report is that European donors are stepping up tied aid credits in Latin America in the machine tool sector, a market U.S. firms have managed to do well in despite growing competitive pressures. Both telecommunications and machine tools are evidently critical industries for strengthening market position over the longer term in the high-technology sector.

There is no way to make a precise projection of the possible multiplier effects on future U.S. export losses from such strategic use of tied aid credits. The potential, however, is of an order of magnitude that should be of serious concern to the U.S. government at this time.

In this context, the Exim report is inadequate in concluding that "the possible impact in selected sectors does not appear large (or broad-based) enough to noticeably affect macro-economic trends." The estimated adverse effect on U.S. exports given in the report greatly understates the current outlook, and the policy objective should focus at least as much on export competitiveness as on macroeconomic trends.

III. A Decade of Change in Official Export Finance

Before turning to the appropriate U.S. policy response, two other dimensions of the tied aid credit issue need to be addressed. The first is the shifting pattern of official export finance that has taken place during the 1980s and the second is the trade/aid interface.

Official export finance is composed of four basic categories: (1) short-term trade finance at commercial rates; (2) medium- and long-term credits at close to commercial rates by export credit agencies such as the U.S. Exim; (3) tied aid credits on highly concessional rates by bilateral aid agencies or together with export credit agencies as mixed credits; and (4) loans, mostly at near commercial rates but some on a concessionary basis, by the multilateral development banks (i.e., the World Bank and the three regional banks).

The first category--short-term trade finance--is generally available to U.S. exporters on terms comparable to competing exporters and poses no significant problem for U.S. export competitiveness. The other three categories, however, are related in that they provide major sources of long-term financing for technology-intensive capital projects in developing countries, and the trend for much of this financing during the 1980s has been unfavorable to U.S. export competitiveness.

The principal interaction has been between long-term credits by export credit agencies and tied aid credits, as shown in table

2. The figures presented for long-term official export credits exclude large commercial aircraft, nuclear power plants, and ships, since these sectors are covered by separate OECD agreements that are more stringent and prohibit tied aid credit. In other words, the figures in the table reflect competing financial sources in all other capital goods sectors.[4]

Such long-term official export credits by OECD countries declined sharply from $20.7 billion in 1982 to $8.2 billion in 1987 and then rose to $12.7 billion in 1988. The decline in U.S. Exim credits was even more precipitous, from $2.2 billion in 1982 to $0.7 billion in 1988. There are two interconnected reasons for this decline.

First, the recession of the early 1980s accompanied by the Third World debt crisis greatly reduced the capability of developing countries to contract additional long-term borrowing. A number of countries went into debt arrearage or sought debt rescheduling and lost eligibility to borrow from export credit agencies. Economic infrastructure projects were delayed or cancelled, particularly in latin America where U.S. market share is relatively high.

The second reason is that other industrialized countries maintained, to a greater extent, the level of bilateral ODA for capital projects through 1986, and then sharply increased such aid in 1987-1988, as discussed earlier and presented in line 2 of the table. The ODA figures alone, however, do not include the long-term official credit portion of mixed credits, as also

Table 2
Long Term Official Export Credits and Tied Aid for Capital Projects
($ billions)

	1982	1984	1985	1986	1987	1988
Unadjusted for Mixed Credits						
Long Terms Official Export Credits						
a. All OECD Countries	20.7	11.5	N.A.	9.4	8.2	12.7
b. The United States	2.2	1.6	N.A.	1.4	1.0	0.7
Bilateral ODA for Capital Projects						
a. All OECD Countries	4.8	6.9	4.7	5.5	9.0	9.4(E)
b. The United States	0.3	0.3	0.2	0.3	0.4	0.4(E)
Adjusted for Mixed Credits						
Long Term Official Export Credits at Normal Terms						
a. All OECD Countries	16.1	9.0	N.A.	7.4	6.4	9.7
b. The United States	2.2	0.3	N.A.	1.4	1.0	0.7
Tied Aid, including Mixed Credits						
a. All OECD Countries	9.4	9.4	N.A.	7.5	10.8	12.4(E)
b. The United States	0.3	0.3	N.A.	0.3	0.4	0.4(E)

rce: Long terms official export credits and bilaterial ODA for capital jects 1984-1987, as for Table 1; bilateral ODA for 1982 from, elopment Cooperation, 1983 Report (OECD Development Assistance mittee), based on development of public utilities.

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discussed earlier, and a shift of 25 percent of the long-term credits of other donors to the "tied aid credits, including mixed credits," in Section B of the table, reflects a more accurate picture of the relationship between long-term credit at normal terms and tied aid credits.

The adjusted figures in Section B indicate the increased relative importance during the 1980s of tied aid credits compared with long-term credits at normal rates. In 1982, tied aid credits were only about half the level of long-term credits at normal rates while by 1987-1988 tied aid credits were substantially higher.

One other relevant observation from Table 2 is that the U.S. share of total bilateral financing for capital projects, long-term credits at normal rates plus tied aid, declined steadily from 10 percent in 1982 to about 5 percent in 1988.

The final major source of official export finance for capital projects is the multilateral development banks (MDBs). MDB projects are distinct in that they are subject to international competitive bidding, although various arrangements with lending countries for parallel or co-financing of projects can result in tied procurement for parts of projects.

Capital projects constitute a large share of MDB lending, although a full assessment of recent levels of financing is not available. The World Bank, however, accounts for about three-quarters of the total, with the remainder from the African, Asian, and InterAmerican banks. World Bank projects in the power generation, telecommunications, and transportation sectors, which constitute the large majority of capital projects assistance as defined in the Exim study, ranged from $4.3 billion to $5.4 billion per year during the period 1984-1988, with no discernible trend. This can be extrapolated to about $6 billion per year for all World Bank capital projects and in the order of $8 billion for all four MDBs.

This rough estimate of MDB financing permits a summing up of long-term official financing for capital projects. In 1987-1988, about $25-30 billion per year of projects were being officially financed. A little less than a third, some $8 billion, were financed by the MDBs, based on international competitive bidding in which U.S. exporters can compete fully. The remaining $17-22 billion consisted of tied bilateral credits, of which the U.S. share was only about 5 percent. Well over half of these tied credits were in the category of tied aid credits.

Another observation is that while the MDB level, at least as reflected by the World Bank, held relatively stable from 1984 through 1988, ODA capital project commitments rose sharply in 1987-1988, and official long-term credits also increased substantially in 1988. In other words, the relative share of untied MDB project loans is in apparent decline toward the end of the decade, which tends to disadvantage U.S. exporters since this is the only category in which they can compete on even terms.

A final comment on the pattern of official long-term finance concerns the telecommunications sector. Telecommunications

constitute the infrastructure for increasingly information technology-based economies and appear to have highest priority by other donors in offering tied aid credits. The establishment of technical standards and in-country operations by donor nation telecommunications companies can provide strategic commercial advantage for the future.

As elsewhere, complete and current information on official financing of telecommunications projects is not readily available. Table 3, however, shows World Bank projects in the sector for 1984-1988 and ODA commitments by the same six other donors as referred to earlier, with Japan broken out separately, for 1984-1987. Again, ODA commitments do not include most of mixed credit financing, so total tied aid credits by the other donors would be considerably higher than the ODA figures shown in the table. Nevertheless, bilateral ODA commitments alone by the six other donors are anywhere from double to 10 times that of the World Bank level, except in 1987, and show a strong upward trend over the period. U.S. ODA commitments for telecommunications projects during the entire four-year period were $6 million compared with $1.8 billion by the other six donors.

Much of the competitive export struggle for telecommunications infrastructure is in the more advanced developing countries that are achieving high levels of overall growth and where expanded communications networks are of highest priority. In this context, the 1987 figure of $682 million for World Bank commitments reflects a unique confluence of large

Table 3
World Bank and Bilateral
ODA Commitments in the Telecommunications Sector
($ millions)

	1984	1985	1986	1987	1988
1. The World Bank and IDA (projects approved)	166	122	50	682	36
2. Six Other Donors (ODA commitments)	320	393	566	503	N.A.
3. Of which, Japan (ODA Commitments)	119	245	255	362	N.A

Source: World Bank figures from annual reports; ODA commitments as for Table 1; note that World Bank data include projects by the soft loan IDA program. The World Bank and the IDA are, in fact, both constituent parts of International Bank for Reconstruction and Development, or IBRD.

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projects in India, Pakistan, and Morocco, among the lower income countries. Japan, in contrast, provided a concessionary loan in September 1987 to Thailand for $250 million, in order to increase the greater Bangkok area phone capacity by one million lines and to supply a transmission network to other parts of the country. A similar large project is currently open to bilateral tied aid credit offers in Indonesia. These latter situations highlight the close relationship that can develop between trade and aid objectives in the more advanced developing country markets, referred to here as the trade/aid interface.

IV. The Trade/Aid Interface

The most elusive dimension of the tied aid credit issue is the relationship between the commercial interests of aid donor countries and legitimate development assistance objectives from the recipient country point of view. The two are inextricably linked as long as aid projects are tied to procurement in the donor country.[5]

The adverse impact on U.S. exports from this linkage has already been addressed. From the standpoint of development strategy, infrastructure capital projects are of central importance since they often encompass the largest part of external long-term financial needs and provide much of the technology base for industry. The importance of infrastructure to industrialization has grown during the 1980s as more and more developing countries adopt private sector and export-driven growth strategies based on rapid industrialization. Starting with the East Asian newly industrialized economies, and then spreading, among others, to ASEAN countries, China, Turkey, and Mexico, adequate power generation, telecommunications, and transportation have become critical bottlenecks to sustained high levels of growth.

The result is an increasing interaction between aid, trade, and investment flows in the overall economic relationship between the industrialized and the developing countries. For the poorest countries, principally in Sub-Saharan Africa and parts of South Asia and the Caribbean Basin, the aid relationship remains dominant, with heavy emphasis on direct assistance to the most needy and fast-disbursing financial support for urgent import needs. For most of Asia, Latin America, and the Middle East, in contrast, economic aid is of declining importance compared with trade and private direct investment, and much of the remaining aid has direct commercial impact through capital project programs and related technical assistance.

Looking ahead to the 1990s, the need for an integrated economic relationship with developing countries, encompassing trade, investment, and official development finance, will become even greater. The transformation underway in most of the developing world is private-sector driven, in which new technologies are being disseminated and applied on an unprecedented scale. This, in turn, raises fundamental questions about economic assistance from the advanced, industrialized countries to the newly industrializing and down through the next tiers of semi-industrialized countries. Should technical assistance be offered for education and training in critical technical skills? Should financial assistance be given to stimulate foreign direct investment and other private-sector objectives? By far the largest question in terms of official development finance, what kind of support should be provided for rapidly growing infrastructure needs through capital project assistance?

Unfortunately, the U.S. economic aid program and the broader development finance policy relationship that has evolved with developing countries are not geared to address these questions. Two reports during 1989 by former AID administrator Alan Woods and by a congressional task force chaired by Lee Hamilton and Benjamin Gilman agree that the existing U.S. aid program has been overtaken by events and needs a fresh start.[6] Little is offered, however, in terms of new, forward-thinking proposals. The congressional report has recommendations essentially for improving the existing structure of U.S. aid, focused on direct assistance to the most needy people (the basic human needs objective) and balance of payments support for foreign policy reasons (the strategic objective). The Woods report is limited to stating the problems and offers no solutions. Neither report gives more than passing reference to the trade/aid interface, the growing role of capital project assistance by other aid donors, and alternative policy courses the United States might pursue to achieve a more integrated approach to U.S. commercial and development objectives in developing countries.

Before turning to what such a policy course might entail, a comment is in order on the Japanese approach to the trade/aid interface. The Japanese aid program is criticized, justifiably, for being heavily oriented toward support of Japanese export and overseas investment interests. Capital project assistance, as noted earlier, is tied to Japanese engineering firms which, in turn, leads to de facto tied procurement for major equipment. As

a consequence, project selection can be motivated less by development priorities for recipient countries and more by Japanese company interests as expressed through participation by the Ministry of International Trade and Industry in the interministerial review process. Similarly, a $2 billion official fund to promote private investment in Association of Southeast Asian Nations (ASEAN) countries gives Japanese joint ventures an advantage over American and other foreign companies. An additional one billion dollars plus per year in grant technical assistance goes largely for feasibility studies, consultants, and equipment that can be the catalyst for Japanese financing of project assistance and private investment.

These Japanese programs are having substantial adverse impact on U.S. exports. Between a third and a half of all tied aid credits for capital projects are provided by Japan. Over 70 percent of these projects are in Asia, but they are being implemented elsewhere as well. In February 1989, for example, Japan announced a $500 million capital project program for Brazil.

At the same time, however, Japan has a reasonably well defined and persuasive development assistance strategy that underlies its aid program and which cannot be ignored in addressing the widespread commercial underpinning of the program in practice. The Japanese approach to development is based on the Japanese postwar experience and the more recent success of the East Asian newly industrialized economies. It stresses the need to motivate people to work hard, save, and educate their children. The key to modernization is the application of advanced technologies through the private sector. The process requires high levels of private and public sector investment which can be met, in large part, through external long-term development finance and technical assistance as Japan provides. Japanese companies play a central role in transmitting applied technologies and management skills through direct investment and, with respect to infrastructure, official capital project contracts.

The Japanese approach is based on demonstrable success in East Asia which is now spreading to Southeast Asia and perhaps to some other countries such as Mexico. Although Japanese officials are reluctant to criticize the U.S. aid program, they are clearly skeptical of the heavy U.S. emphasis on grant balance of payments support directly to governments, and prefer soft loans for specific projects which, inter alia, places greater responsibility on recipient governments to implement projects and repay at least part of the cost. Japanese funding of basic human needs projects has been growing but remains a relatively small part of the total program. The thrust of the Japanese program remains on private-sector driven growth, investment, and exports. It is a highly Asia-centric development model, with Japan at the center as the predominant supplier of development finance, technology, and, to an increasing degree, export markets for developing countries in the region.

The Japanese development assistance strategy is thus based squarely on the trade/aid interface. There are ways to reduce or eliminate the trade-distorting effects, adverse to U.S. exports, that currently result. But the adverse effects cannot be eliminated by ignoring the trade/aid relationship as does the U.S. foreign assistance program or by exhorting others to change their programs to fit the U.S. model. Unfortunately, this has been the essence of the U.S. policy response over the past several years.

V. The U.S. Policy Response to Date

The U.S. policy response to the tied aid credit issue to date can be characterized as reactive, piecemeal, and generally ineffective. The policy relationship between sound development assistance objectives for capital projects and the trade distorting effects when such projects are tied to procurement in donor countries has never been clearly formulated. The asymmetry between heavy emphasis by other donors on capital project assistance and avoidance of such projects except in rare circumstances in the U.S. aid program implies a net adverse impact on U.S. exports, but it is not clear whether the United States accepts the adverse impact or, if not, how it plans to eliminate it.

Similarly, the relative roles of bilateral tied aid projects and untied MDB capital projects is not clear. It would appear that untied MDB projects would be preferable, but the United States has never pursued a greater role for MDBs and, as we have seen, the relativee role of MDBs in capital project assistance declined in the late 1980s.

The lack of a clear U.S. policy response for capital project assistance reflects, in large part, the division of mandates among executive branch agencies. Exim is concerned with export finance for commercial objectives and will not even discuss possible developmental objectives for its programs. The Department of Commerce and the Office of the U.S. Trade Representative, likewise, limit their concern to U.S. trade intersts. USAID, in contrast, pursues a legislative mandate centered on basic human needs programs concentrated in such areas as small-scale agriculture, basic health delivery systems, and population. The State Department is predominately concerned with strategically based assistance for the Middle East, Central America, Philippine military base related payments, and other targeted budget support. Treasury and the Office of Management and Budget are most concerned with the significant budget implications of any U.S. activity in the capital projects field and are therefore negatively disposed to the subject. In sum, no one deals with the trade/aid interface that underlies the tied aid credit issue, or has responsibility for an integrated policy response.

A parallel dichotomy between trade and aid interests exists in congressional committee jurisdictions. The banking committees deal with Exim programs in a narrow, export finance context. The trade committees are concerned with adverse impact on U.S. exports but have no direct authority over development assistance funding. The aid committees--the foreign relations/affairs authorizing committees and the corresponding appropriations subcommittees--have deeply entrenched constituencies in the basic human needs and strategic aid interests that form an unholy alliance against serious consideration of capital project assistance by the United States or how to deal with such programs by others.

In this unfocused policy anvironment, the growing use of tied aid credits by other donors during the 1980s resulted in four largely disconnected initiatives by the U.S. government to alleviate the adverse impact on U.S. exports:

(1) The Mixed Credit Program. In 1984, a mixed credit program was established to provide financing for U.S. firms on terms comparable with those offered by other countries. The program was jointly managed by USAID and Exim,[7] involved project justification on development grounds, and was "defensive," in that U.S. firms could only react to offers made first by others on a given project.

This program is similar to the mixed credit programs of European donors and could have been effective, except that budget appropriations for the grant part of the "mixed" credit were never forthcoming. This funding was to come from the Economic Support Funds, or ESF, portion of the foreign assistance program, but this is also the source of strategic aid funds, and aid appropriations subcommittees--in consultation with State and AID, alloted the mixed credit program "not more than $5 million" in each of fiscal years 1987 and 1988, which turned out to be zero.[8] In five years of operations, the mixed credit program has only funded one project in India for $27 million, which was the result of a fortuitous end of fiscal year reallocation. Obviously, the mixed credit program has had no significant impact to date.

(2) The Exim War Chest. This separate initiative in 1987 allocated up to $100 million per year for three years from the

Exim direct credit budget funding, to be blended with regular Exim long-term credits to provide concessionary financing for U.S. projects in the high-technology field. In this case, no development criteria are involved, the program is administered by Exim, and project selection can be "offensive," that is to say, prior bids by others are not prerequisite to a U.S. offer to finance.

The War Chest facility did finance almost $250 million projects in FY 1986, blending the $100 million grant financing with about $150 of Exim credit at normal terms, which did benefit U.S. exporters. The War Chest program, however, was explicitly formulated as leverage on other donor governments to reach an OECD agreement on tied aid credits (as described in initiative number 3), and lost its purpose once the agreement was fully implemented in July 1988. Moreover, the very general objectives for project selection and the need to move quickly to demonstrate to other governments U.S. serious intent in the OECD resulted in a hurried project selection concentrated in Indonesia and Thailand. Exim management was rightly concerned with the lack of clearly stated operational standards. Only $34 million of War Chest related resources were approved using FY 1988 funds and none for FY 1989. The War Chest legislative authority expires September 30, 1989, and any renewal would have to include new objectives no longer linked to the earlier OECD agreement.

(3) The OECD Agreement. The United States sought to limit the use of tied aid credits by increasing the minimum grant element from 25 to 50 percent and to bring the basis for calculating the grant element more in line with actual market rates of interest. By making tied aid projects more expensive in budget terms, there would presumably be fewer projects, subject to more stringent development criteria. The agreement reached in the spring of 1987 was a compromise that increased the grant element from 25 to 35 percent over two years. This can put some budget restraint on financing capital projects, although pressure had already been building from aid recipient countries to soften the terms of project loans. The revaluation of the yen and European currencies in 1985-1986 had greatly increased the debt servicing of earlier tied aid loans denominated in these currencies, and Japan, for example, was adjusting its terms for project loans downward. Tied aid credits now have at least a 35 percent grant element and yet the higher levels of capital project lending in 1987 have continued and likely increased further in 1988. The OECD agreement, therefore, is probably having only a minor impact on the level of tied aid credits for capital projects.

(4) The Comprehensive DAC Proposals. In early 1987, the United States presented a comprehensive set of proposals in the OECD Development Assistance Committee (DAC) that would strengthen development criteria and eliminate the trade distorting effects

of capital projects assistance. The proposals included untying bilateral projects and a transition to MDB financing for middle-income developing countries. Other donor reactions were mixed and generally negative. Since the United States has no significant capital project program of its own, there was no direct bargaining leverage to get others to change. The relatively low-level DAC discussion, among aid agency representatives, was not pursued at higher level or in a broader forum to include trade policy interests.

In conclusion, the four initiatives of the 1980s have run their course, with results that have had little significant impact on tied aid practices of other countries and the consequent adverse impact on U.S. exports. A new, more forceful and more integrated approach is needed.

VI. A Recommended Action Program

An effective policy response to the tied aid credit practices of other governments should consist of three interrelated components: (1) An immediate response by the U.S. Exim to the commercially oriented mixed credit programs of others; (2) The creation of a capital projects program within AID based on sound development criteria; and (3) Negotiation of a multilateral strategy for capital project assistance that curbs commercially motivated mixed credit practices and puts the remaining capital project assistance on a sound developmental basis.

Each of the three components can be justified on its individual merits. An Exim response to the current practices of others cannot wait even a couple of more years while negotiated solutions are attempted; strategically important markets are being lost now where U.S. high-tech exporters are fully competitive except for financing. The creation of an AID capital projects program would provide what the U.S. economy is best suited to contribute to ensure successful, self-sustaining economic growth in most of the developing world. A negotiated multilateral strategy is the only way to bring the various bilateral and multilateral sources of concessionary finance within common, developmentally sound objectives and procedures.

At the same time, however, the three components are closely linked if the overall effort is to be effective. Other donor

governments will not be willing to make real changes in their practices--which means reducing greatly the current commercial advantages provided influential export interests--unless the United States demonstrates a willingness to counter the practices of others with a visible program of its own, backed by substantial resources. An AID longer term capital projects program would provide an essential element to a multilateral strategy, since it is not possible to eliminate the adverse impact on U.S. exports with the current asymmetry of other donors with large capital project aid programs and the United States with almost none. The multilateral strategy, in turn, is the only way to bring the proliferation of commercially motivated capital project assistance under control, and to limit its scope to agreed priorities within the overall availability of economic aid resources.

More specific proposals for each of the three components are as follows:

(1) A Reconstituted Exim War Chest/Mixed Credit facility. This program would combine, in effect, the existing mixed credit facility, which has no funding, with the existing War Chest facility, which no longer has a purpose. The practical way to do this would be to rewrite the War Chest objectives, which has to be done anyway if the legislation is renewed, and thereby obtain financing through the Exim appropriation as has been done since FY 1986. The reconstituted authority, however, should operate along the lines of the moribund mixed credit program, that is, a

basically defensive approach to meet the actual or anticipated terms of mixed credit offers by other donors. There would also be an assessment of development priority by AID, as in the mixed credit legislation, which would, to some extent, relate this program to the negotiated multilateral strategy. Indeed, the reconstituted War Chest would again be explicitly linked to a multilateral negotiation, with the intent to terminate the program if and when a successful agreement is reached.

This leaves the issues of the level and source of budget resources. An annual level of $200 million of budget appropriations would appear to be the minimal level program to have sufficient impact. If this funding were mixed with long-term credits at normal terms on the basis of a 40 percent grant component, the total program would be about $500 million per year. This would constitute a credible message to others of serious concern by the U.S. government, and would provide significant immediate support to U.S. exporters in terms of financing comparable to that provided by others.

The source of budget resources is the most difficult issue, and the funding should be additional to that budgeted for the Exim direct credit program, which is $650 million for FY 1990. This means transferring the resources from elsewhere, which needs to reflect a higher relative priority on U.S. global competitiveness, as is elaborated in the final section of this paper. If, in contrast, the $200 million for a reconstituted War Chest is simply taken out of the direct credit program, the

latter will suffer just as long-term credits at normal terms by others are expanding after the Third World debt-related doldrums of the mid-1980s. To the extent the Brady Plan succeeds in providing a positive financial basis for export-oriented growth in countries such as Mexico and the Philippines, the demand for Exim long-term lending should rise. However, this program is already short of funds and lags in servicing requests. Moreover, a mixed credit program as proposed here would alone require $300 million of regular long-term credit, or almost half the total credits approved in 1988, shown earlier in Table 2. An attempt to pursue a mixed credit initiative without additional budget resources would be disruptive to the broader Exim mandate.

2. An AID Capital Projects Program. The reestablishment of a capital projects program within AID is overdue in light of the changed circumstances of economic development and is essential to the elimination of the adverse impact on U.S. high-tech exports from other aid donor programs. The design of an AID program should ensure sound development criteria for all projects while taking account of existing adverse trade effects. The program should at the same time be supportive of the objectives for a negotiated multilateral strategy. For example, if the United States should decide to attempt again to negotiate a minimum 50 percent grant element for tied aid credits--which would likely constrain significantly commercially motivated aid credits--it could lead the way with 50 percent grant element credits for the

AID program (as distinct from the Exim War Chest that would simply meet the competition).

AID capital project assistance could be directed both to the relatively small number of countries that currently receive large amounts of aid, such as the Philippines, Indonesia, Pakistan, and Egypt, and to additional countries, particularly in Asia and Latin America, that no longer receive significant aid.

For the current aid recipients, a shift in existing programs to include some capital project assistance could begin in FY 1990. This would not mean reduction in basic human needs projects, which are a relatively small part of country programs, but a shift of fast-disbursing ESF to capital projects. Such a shift would be resisted by recipient governments, who naturally prefer flexible balance of payments support to slower disbursing project assistance, and a decision to implement such a shift needs to be clear and firm. In any event, the scope of capital projects deriving from existing country programs would be limited.

A broader, more sustainable program could begin in FY 1991 and would require a separate budget allocation. Selection of countries and projects would be based on both development and export considerations. Feasibility studies and other technical assistance by the Trade and Development Program could be integrated in this process. Developing countries pursuing developmentally sound, private sector driven industrialization programs, where large financing requirements for infrastructure

projects are a critical need and where other donors are engaged in capital project assistance, would be prime candidates.

Concentration by sector, at least during the first couple of years, would also be desirable. The capital projects program would, in any event, have limited resources and AID would need to develop professional competence in managing such high-tech projects. A natural candidate for high priority is the telecommunications sector. Telecommunications infrastructure is central to national development strategies except in the least advanced countries. U.S. companies generally are the most advanced technologically and have the best equipment to offer at the lowest cost to recipient countries. The telecommunications sector, moreover, as explained earlier, is a prime target of other tied aid credit programs. Emphasis on telecommunications for the initial AID capital project program would give the strongest possible message to other donors that we need a coordinated, trade neutral, approach.

The level of funding for a capital projects program is again the most difficult issue. A minimal level for an efficient, full functioning program would be $500 million of annual budget appropriations which, if provided on loan terms with a 50 percent grant element, would finance $1 billion of projects per year.

3. A Negotiated Multilateral Strategy. The objective would be agreement among all aid donors to provide capital projects assistance based on development priorities and criteria and with a minimum trade distorting effect. This would include curtailing

mixed credit practices that are commercially motivated, particularly in the more advanced developing countries that are no longer recipients of concessionary financing in other sectors such as agriculture, health, and education.

There are numerous specific objectives that could be pursued, most of which have been discussed within the OECD, the World Bank, or elsewhere in recent years. Raising the minimum grant element for tied aid credit to 50 percent retains merit. Development criteria for project selection have been developed within the OECD Development Assistance Committee (DAC), but they lack implementation through a multilateral review mechanism. Shifting capital project assistance entirely to the MDBs for middle income countries would ensure international competitive bidding. Untying bilateral projects, including engineering services, has been discussed, although effective implementation would be difficult to ensure.

Capital project assistance in communist countries, which is prohibited in the U.S. foreign assistance act, also needs to be addressed in view of market-oriented structural changes underway in Poland, Southeast Asia, and, most importantly, China. Although aid programs are currently on hold, China is the largest recipient of Japanese capital project assistance, under a five-year program of over $6 billion. West European donors have also been active, putting U.S. export interests at great disadvantage.

An initial sorely needed step in multilateral cooperation is better information on what is happening. We do not know how much

mixed credit financing actually takes place, which was one of the reasons why the Exim interagency report understated the scope of current practices by other donors. OECD reporting requirements on export credit practices could be adjusted quickly to supply full information.

Finally, an effective multilateral strategy needs a forum with full competency to deal with the issues involved, namely the trade/aid interface. This could prove more difficult than it seems. Representatives of aid agencies deal with project criteria and implementation in the DAC, but lack competence to discuss the broader issues of commercial impact. Foreign affairs ministries tend to view aid policy in political rather than development or commercial terms. Finance ministries come closest to providing the integrating role, helped by their lead responsibilities with the MDBs, but they are reluctant to tread heavily on aid and trade ministry direct interests.

A higher level political directive is needed to give the process clear direction. The seven largest bilateral aid donors are also the seven participants at the annual economic summit. That may be the place to launch a multilateral initiative, with prior technical preparation by qualified officials at the Sherpa level. Since the United States is the aggrieved party in terms of loss of high-tech exports, any initiative will have to be started and pursued with sustained vigor by the United States.

VII. The New Realities of the U.S.-
Developing Country Relationship

The tied aid credit issue, as stated at the outset, has a significant impact on the national commitment to achieve export competitiveness in high-technology industries. Export finance on terms comparable to that provided to our competitors is essential to being fully competitive. This may not have been the case 20 or even 10 years ago when the United States had a comfortable technological lead and price could be a secondary consideration, but it unquestionably is today.

The situation of non-comparable trade finance is especially important in developing countries where imports often receive some form of concessionary financing or economic aid. Capital project assistance in middle income developing countries has the greatest commercial sensitivity, but as a matter of policy the United States has chosen, since the early 1970s, not to provide economic aid in this form. Other donors, in contrast, provide large amounts of economic aid for such projects, either as straightforward aid projects or as mixed credits combining economic aid with export finance at normal terms. Japan has gone farthest in combining trade, investment, and abundant finance to support high-growth economic development strategies throughout Asia.

A U.S. policy response is proposed here that would seek to curb tied aid credits that are commercially motivated and to

provide the remaining capital project assistance based on agreed development criteria and priorities. Such a response would involve renewed participation by the United States in this trade-related area of economic assistance. This leads to the critical question of budget resources. The proposals here call for additional annual budget outlays of $700 million--$200 million for an interim mixed credit program and $500 million for a longer term capital projects program. This amount of budget support translates into about $1.5 billion of projects, still relatively small by comparison to other donors, but enough to have a substantial impact.

This level of funding can easily be dismissed out of hand as unrealistic in an era of severe budget stringency within legislated Gramm-Rudman targets. Additional funding can be judged simply not available while switching funds within Exim existing resources reduces export financing available in one account for use in another. If this is the final word, then no appreciable change should be anticipated in the adverse consequences for U.S. exports experienced over the past several years. To be sure, there will be renewed international negotiations in one form or another, but American companies in the field, trying to win contracts, will continue to encounter the frustration of eleventh hour mixed credit offers that clinch the deal for foreign competitors.

The U.S. response to the tied aid credit issue at this time should not, however, be dismissed in this way. It should rather be considered in the broader perspective of shifting U.S. interests in the developing world and, even more broadly, of a changing U.S. leadership role in world affairs. It is frequently stated by senior officials that economic relations abroad are of growing relative importance, while the ideological appeal of communism as the wave of the future has disintegrated. Export competitiveness in global markets has become a central, vital interest for national well-being. Public opinion polls show that the majority of Americans are more concerned about a Japanese economic threat than a Soviet military threat.

If, indeed, there is such a change in the relative order of U.S. interests abroad, there should be some corresponding adjustment in priorities for resource allocation, even within Gramm-Rudman limits. Unfortunately, this has not been the case thus far. Commercially applicable R&D should be a priority for renewed competitiveness of U.S. industry, and yet during the 1980s the military share of federally funded R&D has risen. In the foreign assistance field, military and strategic aid rose, while economic development has lagged. Official export finance, whether to meet the commercial competition or to contribute to development in key export markets, is a near friendless orphan in both the executive and legislative branches.

The tied aid credit issue thus becomes a significant, tangible test case as to whether relative priorities are indeed changing, in substance as well as in rhetoric. It is not the decisive competitiveness issue for restoring balance in trade

accounts. But export finance on comparable terms--on an even playing field--with our competitors is important, particularly in the more advanced developing country markets with high growth potential. It should be addressed now and given the high priority for resources it deserves.

Notes

1. Power Shortages in Developing Countries: Magnitude, Impacts, Solutions, and the Role of the Private Sector, (Washington, D.C., U.S. Agency for International Development, March 1988).

2. The May 13, 1989 edition of the National Journal, for example, reports that the conclusions were rewritten by OMB: "the first version read, 'Aid is prevalent and growing.' After OMB review, the report noted, 'Noticeable restraint in use.' A conclusion that such aid 'may be influencing the structure of U.S. industry' was deleted, as were five other negative comments that Congress might have interpreted as rationale for increasing the Eximbank's war chest of funds for U.S. exports."

3. More precisely, Japanese projects specify that engineering services are "LDC untied," which means engineering companies from developing countries can compete; however, in practice, Japanese engineering firms are selected. In April 1987, Japan announced it was untying engineering services for projects in South Korea and Malaysia, but those countries no longer receive large amounts of aid. If Japan were to untie engineering services elsewhere, it could significantly benefit U.S. firms.

4. Long-term credits are for maturities of five years or more, which is normal for the capital projects discussed here. The category of medium-term credits, of one to five years maturity, is far smaller in scope, and is not included, in part because comparable figures are not available.

5. For a fuller discussion of this subject, see Ernest H. Preeg, "Trade, Aid and Capital Projects," The Washington Quarterly, Winter, 1989, pp. 173-185.

6. Development and the National Interest: U.S. Economic Assistance into the 21st Century, (Agency for International Development, February 1989); and Presentation of the Task Force on Foreign Assistance to the House Foreign Affairs Committee, (Mimeographed, 1989).

7. The 1988 Trade Act shifted management responsibility for the mixed credit program to a more autonomous Trade and Development Program (TDP), but this is a moot point since there is still no funding for the program.

8. The mixed credit program also provides that wherever the United States provides ESF for a fast disbursing commercial import program, the United States can unilaterally designate part of such funds for a mixed credit offer. This has proven to be a useless provision since although such mixed credit offers have occasionally been made, the U.S. firm never wins the contract because U.S. financing would be taken away from other committed funding while other donor offers would constitute additional funds.

September 1989

Annex

Comment on the Exim Bank Report on Tied Aid Credit Practices

The Exim Bank transmitted to the Congress on April 20, 1989 a report on tied aid credit practices as mandated by the 1988 trade act. This report is the result of an interagency study that began in summer 1988.

The transmitted letter from Exim Acting President William E. Ryan makes clear that the issue of "whether there is any material objective served by an ongoing tied aid credit program" will be reviewed later and "specific recommendations will be forthcoming by early summer." This report thus only focuses on the projected impact of other country practices on U.S. exports as a critical factor for the later policy decisions. The central conclusion, stated in the transmittal letter and reported in the press, is: "our analysis indicates that the U.S. may be experiencing perhaps $400 million to $800 million a year in lost sales because of tied aid credits." This relatively modest figure leads to the conclusion that, "the paper cannot find aggregate trends that imply noticeably adverse effects on either U.S. market share or industrial structure." (Ch.V, p. 2).

Unfortunately, the $400-$800 million grossly understates the likely current adverse impact on U.S. exports, for several reasons explicitly noted in the text of the report but ignored in drawing up the final assessment. As explained below, an estimated trade impact taking account of all factors involved is in the order of $3 to $6 billion per year in lost U.S. exports for capital goods industries. It should be emphasized that this revised estimate is based solely on the data and methodology of the report.

This much higher level of adverse impact on U.S. exports, concentrated in high-tech industry and geographically in the high-growth Asian markets, should be a major concern for U.S. export competitiveness, in terms of longer-term market position as well as short-term losses.

The Report Methodology/Estimate

The $400-$800 million of lost sales the U.S. "may be experiencing" (note the present tense), is based on case study analysis of U.S. firms in five selected sectors of capital goods--telecommunications equipment, computer equipment, electric power generating equipment, rail transportation equipment, and earthmoving equipment. The final estimate, however, fails to adjust the sample finding in four important respects, each of which tends to underestimate the actual impact on U.S. exports:

(1) The report states (Ch. IV, pp. 2-3) "The five selected sectors account for roughly three-quarters of foreign tied aid activity and the companies surveyed represent between 50 and 100 percent of the politically affected companies within each product line....No attempt was made to extrapolate either the company-specific findings to the sector as a whole or the

sector-specific finding to the entire scope of capital-goods producing industries." In the revised estimate presented in the table below, the three-quarters was adjusted to 100 percent for industries, and a 75 percent company survey participation was used. The result is to increase the $400-$800 million figure to $711-$1,421 million. This is a straightforward extrapolation to cover all companies and all capital-goods producing industries.

(2) The lost export sales are based on interviews limited to "specific sales won or lost where foreign tied aid credit financing was present (and)...could have influenced the outcome of the decision," or "potentially lost sales due to specific tied aid credit financing provided by a non-U.S. competitor...to include cases where the U.S. economy did not bid, because it knew of the presence of competitive tied aid credit financing." (Ch. IV, pp. 3-4). The survey is thus limited to cases where there is competitive bidding or potential bidding, as is normally the situation for "mixed credit" financing. However, a large share of tied credit financing is simply a foreign aid loan for a capital project, often related to a prior, aid-financed feasibility study, and which does not involve any form of potential bidding by suppliers. This is especially true of Japan, which supplies up to a half of total bilateral capital project assistance: "Projects are typically supported by concessional OECF loans rather than by mixing export credits and concessional loans or grants." (Ch. II, p. 2 of Japan section). Thus, the large majority of Japanese projects--as well as many

projects by other donors--would fall outside the purview of the sample survey. In the revised estimate here, a conservative one-third share of capital projects, by Japan and others, are considered to be in this category. This brings the $711-$1,411 million figure up to $1,067 to $2,132 million.

(3) The survey is limited to projects where the degree of financial concessionality is less than 50 percent since "exporters rarely report facing grant elements of over 50 percent....the case-study count of lost sales includes only cases where a less than 50 percent grant element is evident or presumed." (Intro., p. 2). Later, in Chapter 3, p. 16, it is stated that, "only one-sixth of DAC aid had a grant element below 50 percent and only 2 percent had a grant element below 35 percent." This is a devastating statistic for the estimate since it could mean that up to five-sixths of tied credit projects fall outside the purview of the survey, and that the full estimated impact should be increased by a factor of six. Most capital project assistance to Africa, South Asia, and other low-income countries tend to be highly concessionary and some European donors and Canada tend to make all project assistance highly concessionary. A modest adjustment is made here than implied by the report, in that only half of tied credit is considered to be 50 percent or higher (compared with the much higher five-sixths of DAC aid cited in the report). This increases the $1,067 to $2,132 million figure to $1,601 to $3,198 million.

(4) The survey result is an average annual level based on

the years 1985-1988, but there was a strong upward trend in the value of capital project assistance during the period, mainly through the upward revaluation of other currencies in terms of dollars, and in some cases, such as Japan and Italy, through higher levels of aid in national currency terms. For example, the Japan table in Chapter II of the report shows an increase in aid commitments for capital goods from $1.8 billion in 1986 to $3.9 billion in 1987, and Japanese aid is scheduled to double again during the five years beginning in 1989. In 1988, South Korea also began a substantial foreign aid program, consisting almost entirely of tied credits for capital projects. An estimated current trade impact for U.S. exports is therefore considerably above the 1985-1988 average. A comparison of 1987 with 1985-1986 in the Chapter II tables for capital project commitments by six major countries indicates a 77 percent increase, and the report states that "tied and credit offers are, in many cases, expanding." (Ch. II, p.5). A more modest adjustment of 50 percent is made here to account for the higher dollar value of current 1989 tied credit projects compared with the average for 1985-1988. This brings the $1,601 to $3,198 million figure to $2,402 to $4,792 million, which is rounded to a final figure of $2.4 to $4.8 billion.

In sum, the four adjustments described above increase the range of estimated impact on U.S. exports by a factor of six, from $400-$800 million to $2.4-4.8 billion.

Adjustments to the Exim Study
Estimate of U.S. Export Losses

	Study figure	$400-$800 million
(1)	Adjustment to extrapolate for total companies and industries	$311-$621 million
(2)	Adjustment for projects where no bidding takes place	$356-$711 million
(3)	Adjustment for projects of over 50 percent concessionality	$534-$1,066 million
(4)	Adjustment for 1989 dollar levels	$801-$1,599 million
	Revised estimated loss of U.S. exports for 1989	$2,402-$4,797 million

In addition to the $400-$800 million estimate analyzed above, the report has an alternative estimate based on "historical market share ratios" for U.S. exports, with a resulting estimate of $500 million to $1.5 billion in annual U.S. export loss. (Ch. IV, table 2). This estimate is also subject to serious understatement for two principal reasons:

(1) The figures are based on a level of tied aid activity that was "at least $3.0 billion per year over the 1984-1987 period and may have even been twice that level." However, as explained in Section II of the body of this report, a more complete and up to date estimate of total tied aid credits for

capital projects by other donors in 1987-1988 would be $10-12 billion per year. This would increase the estimated U.S. annual export loss based on historical market share to $2.5-3.0 billion

(2) The historical market share is biased in that it includes the large amounts of tied credit projects for which U.S. exporters cannot effectively compete. A "competitive market share" would exclude the tied credits, and thus the U.S. market share would rise, as would the estimated loss to U.S. exporters from current tied credit practices. This would raise the market share projected export loss well above the $3 billion level, or comparable to the middle range of the revised industry survey projection.

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MIXED CREDIT USAGE IN CHINA

A WHITE PAPER BY THE
US-CHINA BUSINESS COUNCIL

APRIL 1989

The United States-China Business Council

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SUMMARY

US companies selling capital goods and services to China face a major crisis. Widespread and growing use of concessionary financing and mixed credits offered by virtually every other developed nation imperils American trade competitiveness in the PRC. Concessional financing has become a sina qua non for major investment projects in China, and without some form of export credit assistance American companies stand little chance for success in future development projects in China.

The impact of mixed credits on American business prospects cannot be stated starkly enough. Mixed credit use in China has ballooned from about $500 million in 1985 to about $3 billion in 1988, primarily from Japan, Italy and France, but increasingly from other countries as well. During that period, the US market share of major capital projects such as power plants, chemical plants, telecommunications facilities, and civil engineering projects has plunged to less than 33 percent that of Italy, 50 percent that of France, and 60 percent that of Great Britain. The trend towards mixed credits shows no sign of abating, with more than $1.8 billion in China business projected to be secured by soft loans in 1989 before the year is even half finished.

Mixed credits by other countries prompt immediate trade and job loss in the United States, and severely undermine American corporations' ability to penetrate Chinese markets while entry barriers remain relatively low. The loss of business in China and other markets where mixed credits are prominent also tangibly weakens the global competitiveness of US industry. Without financing relief, US companies will be forced either to retreat from price wars in China, or be impelled by commercial necessity to move their businesses and exporting bases offshore. Neither option serves the national interest.

The US government's strategy to curtail mixed credits through OECD "gentlemen's agreements", while laudable, has proved inadequate in the face of dramatic increases in mixed credit financing in China during the period the agreements have been in effect. It is imperative that the government stand firmly behind American companies by matching mixed credit offers by other countries when US companies are competitive on quality and price. While it is unrealistic to expect the US to match the level of concessional financing of Japan in China, there is no reason for the government not to offer support commensurate with Canada, England, Spain, and Sweden.

A welcome government initiative would be to move quickly to include China on the target list of countries for the US foreign assistance program. There need be no contradiction between the goals of aiding overseas development and assisting the international commercial interests of US business. At a time when the US faces an overwhelming trade deficit, we can not afford to cede one of the world's most important markets to our competitors.

US-CHINA BUSINESS COUNCIL WHITE PAPER ON MIXED CREDITS IN CHINA

APRIL 1989

The United States faces a competitive crisis in China, a critical long-term market, due to the widespread and increasing use of government concessional or mixed credits by most other developed countries to gain commercial advantage for their manufacturers. As government financing has increasingly become the determining factor in Chinese purchase decisions in the past 2-3 years, US companies are losing the major portion of the $5-6 billion per year dollar market for capital investment projects in China.

Business in China generated through mixed credits rose from $487 million in 1985 to a staggering 3.2 billion dollars in 1988. Before 1989 is even half over, 1.8 billion dollars in such business is already projected (see Appendix I).

The mixed-credit business has been particularly concentrated in the power plant, chemical plant, and telecommunications infrastructure sectors, which account for $2.8 billion, $1.5 billion, and over $750 million of mixed credit contracts respectively since 1980 (see Appendix II). Heavy construction equipment (see Appendix II) has been another prominent target for mixed credits. Well over half of the business in China for these sectors is now generated by mixed credits, and much of the rest comes from World Bank loans.

Japan has been the largest supplier of concessional financing, with a cumulative $8.8 billion offered since 1980, primarily for infrastructure projects such as new railroads, ports and telecommunications systems. Japan's commitments are broad economic assistance packages, and at least some portion of funds allocated are not tied to Japanese sales.

Mixed credit offers from Europe, by contrast, have been linked to purchases from the country offering the loan, and have often been made in the heat of commercial competition. The cumulative business generated from these loans since 1980 is $1.93 billion for Italy, $1.12 billion for France, $500 million for Germany, $457 million for England, $478 million for Canada, $318 million for Sweden, etc. The terms of mixed credit loans from the various countries are summarized in Appendix III.

The impact on US companies is massive. In a period when Europe's sales of capital goods to China rose markedly, Chinese figures show US market share for capital projects actually falling from $397.6 million, or 14.7 percent of the total in 1985 to $256 million in 1988--less than 10 percent of the total from all countries. The US share of China is major capital projects market in 1988 was less than one third the level of Italy, less than 50 percent the level of France, and less than 60 percent the level of Britain.

All kinds of companies are affected by soft loans. Companies marketing new products face difficulties getting started. Companies with established reputations in China as leaders in their field--such as MW Kellogg with nitrogen fertilizer plants--find their leading position eroding as contract after contract is won by Italian and French firms supported by mixed credits.

Companies who win China business in years when mixed credits are not a large factor find themselves virtually shut out as mixed credits come to predominate. In thermal electric power, for example, US companies such as Combustion Engineering, Babcock and Wilcox, and General Electric won contracts worth close to $500 million for projects in which soft loans were not involved during 1986-1987--about 33 percent of the thermal power business during those years. In 1988, when over $800 million in business was governed by soft loans, US companies won practically nothing.

Large companies are not the only ones who suffer from the effects of mixed credits. Beloit, a $700 million Wisconsin manufacturer of paper-making machinery, owned as much as 80 percent of the market for imported paper-making machinery prior to 1985, either directly or through its Japanese licensee. With the onset of mixed credits from Finland and Sweden, its market share has plunged to less than 20 percent of the total in recent years.

In order to stay competitive, numerous companies, including Babcock and Wilcox (power plant boilers), Fluor (chemical plants), Dorr Oliver (food and mineral processing plants), and Air Products and Chemicals Company (oxygen generation plants) are bidding for China projects from subsidiaries outside the US. The low dollar would make bids from the United States very attractive were it not for the foreign financing factor.

The impact of mixed credits goes far beyond the immediate multi-billion dollar business lost to the US. The failure to obtain business now when Chinese customers are purchasing their first units will put companies at a decided disadvantage for follow-on business later, even if the follow-on business does not involve mixed credits. Other things being equal, the odds favor a supplier with an existing, ongoing relationship with the customer. With the severe trade deficit the US faces, it would be most unwise to cede one of the world's major markets to our competitors.

This trend is especially evident in telecommunications, which offers a market of hundreds of millions of dollars per year, as China's provinces begin to construct modern telephone networks. Companies such as Ericsson (Sweden), Alcatel (France and Spain), and NEC (Japan) are winning the initial business, supported in most cases by mixed credits.

Not only do mixed credits threaten the future business of American companies in China. They also threaten the worldwide competitiveness of key US industries--those supplying equipment and service for large capital projects.

Since China and other mixed-credit recipients now account for a very significant portion of worldwide business in capital goods, US failure to obtain China business will mean that companies based in competing countries will develop technical know-how, and economies of scale from their China experience. These companies will increase their competitiveness vis-a-vis the US as a result.

The US has already seen the effects of such developments with the semiconductor industry, not to mention others, and should avoid repeating the experience in capital equipment. In an era of over-capacity where only the fittest survive, it is important to position US companies as favorably as possible for the shakedown that will follow--and China is one of the arenas that will determine which companies will survive.

If US companies slip, they are likely to fall completely out of the business, unless they move their manufacturing offshore where they can take advantage of other countries' government financing. The effect on the US is almost the same whether the companies quit the business or move it abroad: a continuing "hollowing out" of manufacturing capability in the United States which bodes ill for progress in reducing the trade deficit.

The traditional response of the US Government to the use of mixed credits by other countries has been to try to stop the practice through a series of OECD "gentlemen's agreements", the most recent in 1987. By requiring our competitors to offer ever more concessional terms in their mixed credit packages, the US thinking has gone, they will be deterred from continuing to offer. And when they violate the ground rules, which now call for at least a 35 percent "grant element" in all mixed credit offers and for notification of all OECD countries (including the US) 20 days prior to making a mixed credit offer, Eximbank is prepared to match the offer for a US company out of the so-called $100 million annual "war chest".

This response has been totally inadequate. As Appendix I shows conclusively, the use of mixed credits in China has gone up, not down, during the period of "genetlemen's agreements". And in 1988 and 1989 alone, eight countries have pledged about $8 billion in concessional or mixed lines of credits to China to be drawn down in coming years, and indications are that hundreds of millions more will be pledged before the end of this year (see Appendix III).

Japan's offer of $6 billion for 5 years from 1989 dwarfs its previous commitments. The sectors in which the loans will be used have expanded to include chemical fertilizer plants, thermal power plants, and airport and air traffic control equipment.

Of even greater significance is that aggressive use of mixed credits in China has spread beyond Japan and countries such as Italy and France, which have a tradition of heavy government subsidy of industry. Now, new players are active in China, such as Canada, Spain, and even West Germany, which shied away from large-scale use of mixed credits in China until it offered about $50 million on behalf of a Benz truck project in 1988 and $250 million to Siemens and others for a subway project in Shanghai. Margaret Thatcher's England is also becoming a major player, having just renewed a 300 million pound line of soft credit to China.

The member companies of the US-China Business Council hope for an end to the use of mixed credits in China and elsewhere, and wish the US Government success in negotiating with other developed countries to bring a halt to the practice. None are attracted by the concept of give-aways to China, or of government subsidy of their own sales. However, the US can no longer afford to allow the competitive position of its companies to deteriorate in China and elsewhere while the negotiating process yields no results.

In order to maintain the viability of critical US industries, the US government must adopt a less reactive policy. The US should be prepared to match financing offers from other countries in cases where US companies are competitive--regardless of whether or not the offers from other countries meet the timely notification and 35 percent grant element terms of the "gentlemen's agreement".

In fact, most of the mixed credit offers in China probably do meet the requirements of the gentlemen's agreement. Therefore, the premise behind the "war chest" approach of responding to agreement violations is fatally flawed.

In addition to matching other countries' offers, the US should be prepared, like other countries, to consider offering mixed or concessional credits to China on its own initiative as part of its foreign aid program. There need be no contradiction between the goals of assisting overseas development and assisting US companies commercially. Other countries are offering mixed credits to China for projects such as water treatment and water supply plants, town-gas plants, food processing plants, and pharmaceutical raw material plants that improve daily lives and fulfill basic human needs.

In order to make a mixed credit program in China a reality, the administration should consult with Congress to enable China to receive funds administered by the Agency for International Development. Although China was removed from the list of countries forbidden to receive AID money four years ago, no funds have yet been allocated.

It is not necessary for the United States to match the billions of dollars that Japan is pouring into China in order to have a respectable mixed credit program. Were the United States to offer $100-150 million in concessional credit to China per year, it would meet the standards set by Sweden, Spain, England, and Canada.

A viable mixed credit program in China and other places is necessary to maintain the long-term economic health of the United States. The Council and its member companies look forward to working with the US government to achieve this goal.

APPENDIX II

SECTORAL BREAKDOWN OF CONCESSIONAL OR MIXED CREDIT USAGE IN CHINA, 1980-1989
(MILLION $)

	AUTOMOTIVE	CHEMICAL	ELECTRIC POWER	FOOD PROCESSING	METALS	BUILDING MATERIALS	PORTS	RAILROADS	SUBWAY	TELECOM	WATER	SHIPBLDG
AUSTRALIA				11		35						
AUSTRIA				14								
BELGIUM			200	12						21		
CANADA		259	100							100		
DENMARK					4	78						
FINLAND				10								
FRANCE	5	240	656		40	30				169	16	
GERMANY	60	4			31				250	30		150
G. BRITAIN			364		48							45
JAPAN		199	1006				695	1380	148	135	437	
ITALY	230	675	386		660					15		
LUXEMBOURG					9							
NETHERLANDS		18		20						29.7		
NORWAY			6			4				14.8		
SPAIN		150	75			15				35		
SWEDEN		20	7	15	16		2			209		
SWITZRLND				4								
USA									20			
TOTAL	295	1565	2800	86	808	162	697	1380	418	758.5	453	195

Source: US-China Business Council

APPENDIX I: CHINESE UTILIZATION OF MIXED OR CONCESSIONAL CREDITS FROM OECD COUNTRIES
($MILLION)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 AND BEYOND	TOTAL
AUSTRALIA							35		1	11		47
AUSTRIA								14				14
BELGIUM	200				10	16	20	na	na			246
CANADA								6	256	216		478
DENMARK				37			38	6	11			92
FINLAND							4	2	32			38
FRANCE						66	220	38	516	282		1122
GERMANY							3	11	126	288	70	498
G. BRITAIN							32	45	332	48		457
JAPAN		200	200	250	250	375	375	402	425	600	5700	8777
ITALY						3	412	325	982	207		1929
LUXEMBOURG									2	7		9
NETHERLANDS								31	67			98
NORWAY							6	20	8	4		38
SPAIN									270	30		300
SWEDEN			10		8	27	25	14	92	107	35	318
SWITZRLND								15	NA			15
USA										20		20
TOTAL	200	200	210	287	268	487	1170	929	3120	1820	5805	14496

Source: US-China Business Council

APPENDIX III

NEW OFFERS OF CONCESSIONAL AND MIXED CREDIT OFFERS TO CHINA BY DEVELOPED COUNTRIES, 1988-1989 (MILLION DOLLARS)

COUNTRY	AMOUNT OFFERED	DATE	PERIOD EFFECTIVE	COMMENT
JAPAN	6,000	1988	1989-1995	FULLY CONCESSIONAL CREDIT FROM OECF FOR 41 PROJECTS.
GREAT BRITAIN	540	1988	1988-1990	MIXED CREDIT REPLENISHES SIMILAR LINE OF CREDIT FOR 1986-1988.
CANADA	280	1988	1989-1990	CONCESSIONAL CREDIT TO BE BLENDED WITH COMMERCIAL OR CONSENSUS MONEY.
SPAIN	450	1989	1989-1991	MIXED CREDIT. REPLENISHES $300 MILLION LINE OF CREDIT 1986-1988.
AUSTRALIA	160	1988	1989-1991	
WEST GERMANY	122	1989	1989	CONCESSIONAL CREDIT FOR SMALL AND MEDIUM-SIZED PROJECTS
WEST GERMANY	250	1989	1989	MIXED CREDIT FOR SHANGHAI SUBWAY.
SWEDEN	100	1989	1989	CONCESSIONAL CREDIT FOR PROJECTS.

SOURCE: US-CHINA BUSINESS COUNCIL FILES

APPENDIX IV: TERMS OF CONCESSIONAL PORTION OF MIXED CREDITS TO CHINA

COUNTRY	INTEREST RATE (%)	REPAYMENT PERIOD (YEARS)	GRACE PERIOD (YEARS)	METHOD OF BLENDING
AUSTRIA	4.5	20	2	THESE ARE TERMS OF ENTIRE MIXED CREDIT
AUSTRALIA	GRANT			25 PERCENT GRANT MIXED WITH 75 PERCENT CONSENSUS.
BELGIUM	0	30	10	30 PERCENT CONCESSIONAL, REMAINDER CONSENSUS OR COMMERCIAL
CANADA	0	50	10	30 PERCENT CONCESSIONAL, 70 PERCENT CONSENSUS
DENMARK	0	35	10	45 PERCENT CONCESSIONAL, 55 PERCENT CONSENSUS
FINLAND	0.75	25	7	40 PERCENT CONCESSIONAL, 60 PERCENT COMMERCIAL
FRANCE	2.5	30	10	35-40 PERCENT CONCESSIONAL, 60-65 PERCENT CONSENSUS
GERMANY	2	30	10	FULLY CONCESSIONAL FOR SMALL AND MEDIUM-SIZED PROJECTS.
GERMANY	1.5-4.5	10-20		FULLY CONCESSIONAL FOR SHIPS.
GREAT BRITAIN	5	20	5-7	TERMS OF ENTIRE MIXED CREDIT.
GREAT BRITAIN				30-35 PERCENT GRANT BLENDED WITH COMMERCIAL FOR CERTAIN "TRADE AND AID" PROJECTS.
JAPAN	2.5	30	10	FULLY CONCESSIONAL FOR OECF PROJECTS.
ITALY	1.5	20	10	40-45 PERCENT CONCESSIONAL, 55-60 PERCENT CONSENSUS. TERMS CAN VARY FROM THIS STANDARD.
NETHERLANDS	0.25	30	10	
SPAIN	2	30	10	30-40 PERCENT CONCESSIONAL, 60-70 PERCENT CONSENSUS.
SWEDEN	0	6		MOST SWEDISH CONCESSIONAL LOANS COVER MORE THAN 80 PERCENT OF CONTRACT.

SOURCE: CHINESE MINISTRY OF FOREIGN ECONOMIC RELATIONS AND TRADE AND US-CHINA BUSINESS COUNCIL FILES.

NOTE: INFORMATION ON METHOD OF BLENDING MAY NOT REFLECT ADJUSTMENTS MADE AFTER THE MOST RECENT GENTLEMEN'S AGREEMENT, AND SHOULD NOT BE TAKEN TO SIGNIFY VIOLATION OF THE AGREEMENT.

Annex I

MIXED CREDIT USAGE IN CHINA:
A PROJECT-BY-PROJECT REVIEW

ANNEX I-1

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1980			
BELGIUM	200.0	ELECTRIC POWER	**YAOMENG THERMAL POWER PLANT** CONTRACT TO BELGIAN CONSORTIUM FOR 600 MW PLANT.
JAPAN	150.0	PORTS	**SHIJIUSUO HARBOR CONSTRUCTION** VALUE APPROXIMATE. FUNDED CONSTRUCTION MATERIALS AND EQUIPMENT, LOADING AND UNLOADING FACILITIES.
	200.0	PORTS	**QINHUANGDAO COAL PORT CONSTRUCTION** VALUE APPROXIMATE. LOAN COVERED CONSTRUCTION EQUIPMENT AND MATERIALS IMPORT, LOADING AND UNLOADING EQUIPMENT.
	250.0	RAILROADS	**BEIJING-QINHUANGDAO RAILROAD CONSTRUCTION** VALUES APPROXIMATE. LOANS COVERED CONSTRUCTION EQUIPMENT, MATERIALSAND ELECTRIFICATION EQUIPMENT.
	200.0	RAILROADS	**YANZHOU-SHIJIUSUO RAILROAD CONSTRUCTION** LOAN AND CONTRACT VALUES APPROXIMATE. FUNDED CONSTRUCTION MATERIALS, EQUIPMENT.
	200.0	RAILROADS	**HENGAYANG-GUANGZHOU RAILROAD** FOR CONSTRUCTION OF DAYAOSHAN TUNNEL. PART OF FIRST BATCH OF OECF PROJECTS.
1982			
SWEDEN	10.2	TIMBER PROCESSING	**NANCHA WOOD HYDROLYSIS PLANT** CONTRACT WITH SUNDS DEFIBRATOR FOR SUPPLY OF MEDIUM DENSITY FIBREBOARD PRODUCTION LINE.
1983			
DENMARK	36.8	BUILDING MATERIALS	**LIUZHOU CEMENT PLANT** CONTRACT TO FL SMIDTH FOR COMPLETE 1 MILLION TON PER YEAR PLANT.

ANNEX I-2

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1984			
BELGIUM			
	10.0	TELECOMMUNICATIONS	**SHANGHAI BELL TELEPHONE EQUIPMENT FACTORY** BELGIAN GOVERNMENT CO-INVESTMENT IN BELL TELEPHONE COMPANY SWITCHINGEQUIPMENT JOINT VENTURE IN SHANGAI. ALL MONEY CONCESSIONAL.
SWEDEN			
	2.8	PULP AND PAPER	**YIBIN PAPER MILL, PHASE I** TO FINANCE PURCHASE OF SECOND-HAND KRAFT AND NEWSPRINT MILL FROM SWEDEN. CAPACITY 100 TONS PER DAY.
	3.4	PULP AND PAPER	**BEIJING PAPER MILL COATING PAPER PRODUCTION LINE** DATE APPROXIMATE. CONTRACT WITH KARSTADS KEKANISKA WERKSTAD.
	2.2	TELECOMMUNICATIONS	**SHANGHAI TELEX MACHINE FACTORY** LOAN FOR TECHNOLOGY TRANSFER BY PHILIPS SWEDEN AND FACTORY UPGRADING.
1985			
BELGIUM			
	4.5	FOOD PROCESSING	**BEIJING WUXING BEER FACTORY** CONTRACT TO UPGRADE THE PLANT.
	11.0	TELECOMMUNICATIONS	**SHANGHAI BELL TELEPHONE EQUIPMENT PLANT** EQUIPMENT AND PARTS PURCHASE BY SHANGHAI BELL TELEPHONE EQUIPMENT JOINT VENTURE.
FINLAND			
	0.0	TIMBER PROCESSING	**QINGDAO HUALIN PLYWOOD COMPANY** FINNISH FUND FOR INDUSTRIAL DEVELOPMENT CO-INVESTOR IN JOINT VENTURE BETWEEN CHINA AND RAUTE OY TO MAKE PLYWOOD.
FRANCE			
	66.0	TELECOMMUNICATIONS	**BEIJING TELEPHONE NETWORK PHASE I** CONTRACT WITH ALCATEL FOR 100,000 LINES IN 14 EXCHANGES, PLUS TRUNK CIRCUITS, OPTICAL FIBER CABLE AND TERMINALS.
ITALY			
	2.5	ELECTRONICS	**YUNNAN MICROCOMPUTER PROJECT** TO SUPPORT TECHNOLOGY TRANSFER BY OLIVETTI FOR 16-BIT MICROCOMPUTER.

ANNEX I-3

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1985			
JAPAN	770.0	ELECTRIC POWER	**TIANSHENGQIAO HYDROELECTRIC PLANT** OECF LOAN INCLUDED CONSTRUCTION EQUIPMENT AND GENERATORS. JAPAN WONGENERATOR CONTRACTS.
	235.0	PORTS	**MIAOLING HARBOR CONSTRUCTION, LIANYUNGANG** OECF LOAN FOR HARBOR CONSTRUCTION. CHINA MAY NOT HAVE USED ENTIRE LOAN.
	110.0	PORTS	**QINHUANGDAO PORT RENOVATION** OECF LOAN FOR HARBOR EXPANSION. NOT ALL THE MONEY COMMITTED MAY HAVE BEEN ACTUALLY USED.
	380.0	RAILROADS	**ZHENGZHOU-BAOJI RAILROAD RENOVATION** OECF LOAN FOR RAILROAD RECONSTRUCTION. INCLUDED LARGE TIED PORTION FOR ELECTRIC LOCOMOTIVES, PLUS LESS TIED PORTION FOR CONSTRUCTION EQUIPMENT.
	135.0	TELECOMMUNICATIONS	**SHANGHAI, GUANGZHOU, AND TIANJIN TELEPHONE NETWORKS** OECF COMMITMENT FOR 150,000 LINES WORTH OF EQUIPMENT. ACTUAL CONTRACTS MAY NOT HAVE COME OUT TO SUCH A HIGH VALUE. LOANS HAVE BEEN TIED DE-FACTO.
SWEDEN	5.1	IRON AND STEEL	**SHOUDU KANTHAL ELECTRIC WIRE COMPANY** SWEDISH GOVERMENT LOAN TO JOINT VENTURE WITH KANTHAL COMPANY TO MAKE WIRE FOR MOTORS.
	21.8	TELECOMMUNICATIONS	**LIAONING TELEPHONE NETWORK, PHASE 3** CONTRACTS WITH ERICSSON FOR SWITCHING SYSTEMS, DIGITAL MICROWAVE COMMUNICATIONS IN 4 CITIES. COVERS TOTAL OF 68,000 SUBSCRIBER LINES.
1986			
AUSTRALIA	35.0	BUILDING MATERIALS	**SHUNCHANG CEMENT PLANT** DANISH TECHNOLOGY, AUSTRALIAN EQUIPMENT FOR PLANT IN FUJIAN.
BELGIUM	8.0	FOOD PROCESSING	**CHANGSHA FRUCTOSE PLANT** WON BY ABAY ENGINEERING. COMPETITION FROM DORR-OLIVER.
	20.0	PHARMACEUTICAL	**XIAN-JANSSEN PHARMACEUTICAL COMPANY** LOANED TO BELGIAN PARTNER OF JOINT VENTURE FOR PLANT AND EQUIPMENT.

ANNEX I-4

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1986			
DENMARK			
	38.0	BUILDING MATERIALS	ZHUJIANG CEMENT FACTORY CONTRACT FOR 2,000 TON PER DAY PLANT TO FL SMIDTH.
FINLAND			
	4.0	FOOD PROCESSING	FOUR DAIRIES. CONTRACT WITH ELECSTER FOR DAIRY EQUIPMENT.
FRANCE			
	30.0	BUILDING MATERIALS	YUNFU CEMENT PLANT CONTRACT WITH FIVES LILLE BABCOCK GROUP FOR CEMENT PLANT IN GUANGDONG PROVINCE.
	190.0	ELECTRIC POWER	JIANGYOU THERMAL POWER PLANT CONTRACT TO ALSTHOM FOR 660 MW THERMAL PLANT IN SICHUAN.
GERMANY			
	3.0	TEXTILES	SHAANXI NUMBER 3 PRINTING AND DYEING FACTORY
GREAT BRITAIN			
	32.0	ELECTRIC POWER	SHENGLI OILFIELD COMBINED CYCLE POWER PLANT CONTRACT TO JOHN BROWN ENGINEERING, SOME US CONTENT. US COMPANIES LOST COMPETITION FOR ENTIRE CONTRACT.
ITALY			
	217.0	AUTOMOTIVE	NANJING TRUCK PLANT RENOVATION TO SUPPORT TRANSFER OF TECHNOLOGY FROM FIAT AND FACTORY RENOVATION.
	180.0	ELECTRIC POWER	BEIDAGANG THERMAL POWER PLANT CONTRACT TO GIE ANSALDO. BIDDING BY INVITATION ONLY.
	15.0	TELECOMMUNICATIONS	CHONGQING TELECOMMUNICATIONS EQUIPMENT PLANT TO SUPPORT TRANSFER OF ITALTEL PULSE CODE MODULATION (TRANSMISSION) TECHNOLOGY TO PLANT.
NETHERLANDS			
	10.0	FOOD PROCESSING	MUDANJIANG PHARMACEUTICALS FACTORY CONTRACT WITH DORR OLIVER FOR CORN PROCESSING FACTORY TO MAKE PHARMACEUTICALS RAW MATERIALS.
NORWAY			
	6.3	MISCELLANEOUS	BEIJING ALCOHOL FACTORY CONTRACT WIT' 'ORD BARTZ FOR FODDER PRODUCTION LINE.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1986			
SWEDEN	6.2	FOOD PROCESSING	RAPE SEED OIL PLANTS LOAN FOR NANJING AND HEFEI PROJECTS PLEDGED IN 1986.
	4.5	PULP AND PAPER	JILIN PAPER MILL CONTRACT WITH ELOF HANSSON TO PURCHASE EQUIPMENT FOR NEWSPRINT PRODUCTION.
	14.3	TELECOMMUNICATIONS	LIAONING TELEPHONE SYSTEM, PHASE II
1987			
AUSTRIA	14.0	FOOD PROCESSING	ZHANJIANG CITRIC ACID FACTORY
CANADA	6.0	TELECOMMUNICATIONS	JIANGXI TELEPHONE SYSTEM CONTRACT TO NORTHERN TELECOMMUNICATIONS FOR SWITCHING SYSTEMS.
DENMARK	5.5	MISCELLANEOUS	DIESEL ENGINE CASTING LINE
FINLAND	1.5	FOOD PROCESSING	JIUQUAN DAIRY CONTRACT FOR DAIRY EQUIMENT WITH ELCSTER.
FRANCE	30.0	CHEMICAL	SINO-ARAB FERTILIZER PLANT CONTRACT TO SPIE BATIGNOLLES TO BUILD DIAMMONIUM PHOSPHATES AND NPK FERTILIZER PLANT.
	8.0	ELECTRIC POWER	XIAMEN UNDERWATER POWER CABLE CONTRACT TO LYON CABLE FROM HUANENG INTERNATIONAL POWER DEVELOPMENT COMPANY. COMPETITION FROM 6 JAPANESE AND ONE ITALIAN COMPANY.
GERMANY	11.0	IRON AND STEEL	JINXI COLD-ROLLED PIPE PLANT FROM AID PROGRAMS FOR DEVELOPING COUNTRIES.

ANNEX I-6

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1987			
GREAT BRITAIN	45.0	SHIPPING	TWO CONTAINER SHIPS
ITALY	13.0	AUTOMOTIVE	BEIJING TIRE PLANT FOR PIRELLI RADIAL TIRE PLANT SALE AND TECHNOLOGY TRANSFER.
	130.0	CHEMICAL	SHOUDU STEEL PLANT COAL GASSIFICATION CONTRACT TO CTIP. TEXACO TECHNOLOGY.
	93.0	CHEMICAL	PANJIN POLYETHYLENE PROJECT CONTRACT TO TECHNIPETROL FOR 120,000 TON PLANT.
	40.0	CHEMICAL	FUSHUN POLYPROPYLENE PLANT CONTRACT FOR 60,000 TON PER YEAR PLANT TO TECNIMONT.
	49.0	CHEMICAL	SHANGHAI JINSHAN POLYPROPYLENE PLANT CONTRACT FOR 70,000 TPY PLANT WITH TECNIMONT.
	3.2	CHEMICAL	WEIFANG DETERGENT FACTORY CONTRACT WITH MAZZONI COMPANY TO SUPPLY SO SULFORATION AND SPRAY DRYING EQUIPMENT.
JAPAN	77.0	CHEMICAL	PANJIN ETHYLENE PLANT CONTRACT TO TOYO-LUMMUS FOR 120,000 TON PLANT. JAPAN MADE MIXED CREDIT OFFER IN RESPONSE TO ITALIAN OFFER.
NETHERLANDS	19.0	AVIATION	SHANGHAI HONGQIAO AIRPORT CONSTRUCTION FOR NEW CONSTRUCTION AT THE AIRPORT.
	2.3	FOOD PROCESSING	BEIJING BEIJIAO DAIRY PRODUCTS FACTORY
NORWAY	5.0	SHIPPING	CONTAINERS
	4.7	TELECOMMUNICATIONS	GUANGDONG POWER NETWORK MICROWAVE COMMUNICATIONS CONCESSIONAL PORTION IN FORM OF GRANT. CONTRACT TO A/S-NERA.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1987			
NORWAY			
	8.2	TELECOMMUNICATIONS	BEIJING MARINE SATELLITE EARTH STATION
	2.0	TIMBER PROCESSING	SANMING PLYWOOD FACTORY CONTRACT FOR FORMALDEHYDE AND SIZING MATERIALS TO DYNO.
SWEDEN	2.0	FOOD PROCESSING	TONGLIAO DAIRY FACTORY FOR ALFA LAVAL SUPPLY OF BABY-FOOD/MILK PRODUCTION LINE.
	2.4	PORTS	HANGZHOU GRAND CANAL PORT FOR NEW CARGO HANDLING MACHINERY AT BERTHS ALONG OLD GRAND CANAL.
	1.6	PULP AND PAPER	YIBIN PAPER MILL, PHASE II TO FINANCE PURCHASE OF PULP-MAKING AND BLEACHING EQUIPMENT FROM ELOF HANSSON COMPANY.
	4.8	PULP AND PAPER	DANDONG PAPER MILL TO SUPPORT ELOF HANSSON SALE OF SECOND-HAND EQUIPMENT TO MILL.
	2.7	TELECOMMUNICATIONS	TIANJIN NUMBER 2 CABLE PLANT UPGRADING TO SUPPORT TRANSFER OF TECHNOLOGY FOR POLYOLEFIN-SHEATHED TELEPHONE CABLE BY KABMATIC COMPANY.
SWITZERLAND	3.9	FOOD PROCESSING	MUDANJIANG FLOUR MILL FACTORY TO PROCESS 100,000 TONS OF WHEAT PER YEAR.
	11.0	TEXTILES	LIAONING TEXTILES MACHINERY FOR SUPPLY OF LOOMS AND WARPING MACHINES FROM SULZER RULITI AND BENIGER.
1988			
AUSTRALIA	1.0	MISCELLANEOUS	LIAONING SILKWORM COLD STORAGE PROJECT
CANADA	60.0	CHEMICAL	YUEYANG CAPROLACTUM PLANT CONTRACT TO KLOCKNER, CANADA.
	170.0	CHEMICAL	FUSHUN ETHYLENE AND POLYETHYLENE PLANTS CONTRACT [illegible] MMUS OF CANADA. CAPACITIES 120,000 TONS AND 60,000 TONS RESPECTIVELY.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
CANADA			
	14.0	CHEMICAL	JIUJIANG PROPYLENE OXIDE PLANT CONTRACT TO LE GROUP SNC, SEPTEMBER. COMPETITION FROM US COMPANY.
	15.0	CHEMICAL	DOW-NINGBO POLYURETHANE COMPANY LOAN TO SUPPORT EQUIPMENT PURCHASE FOR DOW CHEMICAL CORPORATION JOINT VENTURE.
	12.0	MISCELLANEOUS	GRINDING WHEEL PLANT RENOVATIONS CONTRACT TO G AND B AUTOMOATED FOR RENOVATION OF THREE PLANTS.
DENMARK			
	2.7	BUILDING MATERIALS	CONCRETE PIPE PLANT CONTRACT TO PEDERSHAB AND SKAKO.
	4.2	MISCELLANEOUS	RUBBER TUBE AND GAS PIPE PLANT
	3.8	NON-FERROUS METALS	PINGGUO ALUMINUM PLANT CONTRACT TO FL SMIDTH FOR ALUMINA CALCINER.
FINLAND			
	4.0	FOOD PROCESSING	TIANJIN DIARY DEVELOPMENT CENTER
	3.6	MISCELLANEOUS	MUDANJIANG HEATING SYSTEM CONTRACT TO IMATRAN VOIMA FOR PUMPS AND HEAT EXCHANGERS. NO INTERNATIONAL COMPETITION.
	24.0	PULP AND PAPER	SHANGHAI XINGHUO PAPER MILL CONTRACT FOR CARDBOARD PRODUCTION LINE TO TAMPELLA. COMPETITION FROM AUSTRIA, SWEDEN.
	0.0	PULP AND PAPER	XIAN PAPER MACHINERY FACTORY FINNISH FUND FOR INDUSTRIAL DEVELOPMENT COOPERATION INVESTING THE MONEY IN JOINT VENTURE BETWEEN VALMET AND XIAN PLANT. COMPETITION FOR JV FROM BELOIT, USA.
FRANCE			
	30.0	CHEMICAL	URUMQI POLYESTER PLANT CONTRACT TO TECHNIP, KANEBO (JAPAN) PROCESS TECHNOLOGY.
	63.0	CHEMICAL	FULING CHEMICAL FERTILIZER PLANT CONTRACT TO TECHNIP FOR SUPPLY OF AMMONIA PLANT PLUS CONSTRUCTION SUPERVISION OF UREA PLANT IN SICHUAN. STRONG COMPETITION FROM M.W. KELLOGG (USA).

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
FRANCE	53.5	CHEMICAL	FUSHUN ETHYLENE GLYCOL PLANT CONTRACT TO TECHNIP, SHELL TECHNOLOGY.
	258.0	ELECTRIC POWER	LUOHUANG THERMAL POWER PLANT CONTRACT TO ALSTHOM FROM HUANENG INTERNATIONAL POWER. ADDITIONAL $36 MILLION FOR SCRUBBER TOMITSUBISHI. COMPETITION FOR BOILER FROM FOSTER WHEELER.
	22.0	NON-FERROUS METALS	PINGGUO ALUMINUM PLANT CONTRACTS TO PECHINEY AND KDH FOR ALUMINA TECHNOLOGY AND GREEN ANODEROD RESPECTIVELY.
	103.0	TELECOMMUNICATIONS	BEIJING TELEPHONE NETWORK PHASE II CONTRACT WITH ALCATEL AND CABLES DE LYON FOR 155,000 LINES IN 10 EXCHANGES PLUS 12 SATELLITE EXCHANGES, TRUNK CIRCUITS, OPTICAL FIBER CABLE AND PLASTIC CABLE.
	19.0	WATER	TIANJIN DONGJIAO SEWAGE TREATMENT PLANT CONTRACT FOR SEWAGE TREATMENT PLANT EQUIPMENT AND INSTRUMENTS TO DEGREMONT.
	6.0	WATER	CHONGQING JIULONGPO WATER SUPPLY CONTRACT TO DEGREMONT FOR WATER SUPPLY ENGINEERING.
GERMANY	4.4	CHEMICAL	SHENYANG AUXILIARY AGENT PLANT LOAN PROMISED BY GERMANY IN 1988.
	54.9	SHIPPING	CONTAINER SHIP CONTRACT TO HOWALDTSWERKE.
	110.0	SHIPPING	TWO CONTAINER SHIPS
	7.7	TEXTILES	JIANGSU AND ZHEJIANG WOOLEN MILLS LOAN PROMISED BY GERMANY IN 1987.
	4.0	TIMBER PROCESSING	GUANGHUA TIMBER FACTORY LOAN PROMISED IN 1987 FOR PLASTIC VENEER EQUIPMENT.
	9.8	TIMBER PROCESSING	SHAOWU LOG YARD PARTICLE BOARD LINE

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
GREAT BRITAIN	292.0	ELECTRIC POWER	**YUEYANG THERMAL POWER PLANT** CONTRACT TO GEC FOR GENERATING EQUIPMENT, BALFOUR BEATTY FOR TRANSMISSION EQUIPMENT. NO NON-BRITISH COMPETITION.
	40.0	ELECTRIC POWER	**CHONGQING JIANGBEI COMBINED CYCLE POWER PLANT** CONTRACT TO JOHN BROWN ENGINEERING FOR 100 MW PLANT. PART SUB-CONTRACTED TO MITSUBISHI. SOME US CONTENT IN BRITISH EQUIPMENT.
ITALY	27.0	CHEMICAL	**FULING FERTILIZER PLANT** CONTRACT TO SNAMPROGETTI FOR UREA PLANT IN SICHUAN. COMPETITION FROM. W. KELLOGG (USA).
	89.0	CHEMICAL	**HEJIANG FERTILIZER PLANT** CONTRACTS TO TECHNIMONT AND SNAMPROGETTI FOR AMMONIA AND UREA PLANTS. STRONG US COMPETITION.
	171.0	ELECTRIC POWER	**LIGANG THERMAL POWER PLANT** CONTRACT TO GIE-ANSALDO FOR TURBINE-GENERATORS AND BALANCE OF PLANT AT 700 MW PLANT.
	36.0	ELECTRIC POWER	**XINHUA POWER PLANT BOILER RENOVATION** CONTRACT TO ANSALDO FOR CONVERSION FROM COAL TO OIL-BURNING.
	410.0	IRON AND STEEL	**ANSHAN SEAMLESS PIPE PLANT** CONTRACT TO INTALIPIANTI FOR CONSTRUCTION OF NEW 500,000 TON PER YEAR PIPE MILL.
	250.0	IRON AND STEEL	**TIANJIN SEAMLESS PIPE PLANT** CONTRACT TO INTALIPIANTI FOR CONSTRUCTION OF SEAMLESS PIPE PLANT.
JAPAN	122.0	CHEMICAL	**COAL GAS SUPPLY PROJECT** PART OF FIRST BATCH OF OECF PHASE III PROJECTS. TO FUND COAL GAS SYSTEMS IN HARBIN, NINGBO, FUZHOU, GUIYANG.
	236.0	ELECTRIC POWER	**WUQIANGXI HYDROELECTRIC PLANT** PART OF FIRST BATCH OF PHASE III OECF PROJECTS.
	150.0	RAILROADS	**DATONG-QINHUANGDAO RAILROAD, EASTERN SECTION** PART OF FIRST BATCH OF PHASE III OECF PROJECTS.
	148.0	SUBWAY	**BEIJING SUBWAY EXTENSION** PART OF FIRST BATCH OF OECF PHASE III PROJECTS. TO FUND CONSTRUCTION OF 12 KM.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
JAPAN	181.0	WATER	GUANYINGE RESERVOIR PART OF FIRST BATCH OF PHASE III OECF PROJECTS. CONSTRUCTION OF DAM.
	126.0	WATER	BEIJING MUNICIPAL WATER SUPPLY PART OF FIRST BATCH OF OECF PHASE III PROJECTS. TO FUND CONSTRUCTION OF SYSTEM TO SUPPLY WATER.
	29.0	WATER	BEIJING WASTEWATER TREATMENT PART OF FIRST BATCH OF PHASE III OECF PROJECTS.
	101.0	WATER	WATER SUPPLY IN FOUR CITIES PART OF FIRST BATCH OF OECF PHASE III PROJECTS.
NETHERLANDS	18.0	CHEMICAL	YUEYANG CAPROLACTUM PLANT TO SUPPORT TRANSFER OF STAMICARBON TECHNOLOGY TO PLANT.
	8.0	FOOD PROCESSING	TIELING CORN STARCH FACTORY CONTRACT WITH DORR-OLIVER BV FOR 250 TON PER DAY PLANT.
	5.5	NON-FERROUS METALS	PINGGUO ALUMINUM PLANT CONTRACT WITH HOLTHIUS FOR HIGH-PRESSURE SLURRY PUMP.
	22.7	TELECOMMUNICATIONS	YANGTZE OPTICAL FIBER AND CABLE COMPANY MIXED CREDIT PROVIDING 60 PERCENT OF INVESTMENT IN PHILIPS OPTICAL FIBER AND CABLE JOINT VENTURE IN WUHAN.
	7.0	TELECOMMUNICATIONS	SUZHOU NUMBER 1 WIRE COMMUNICATIONS FACTORY FOR TECHNOLOGY TRANSFER OF PHILIPS DIGITAL SWITCHBOARD TECHNOLOGY AND FACTORY UPGRADING.
NORWAY	4.0	BUILDING MATERIALS	JINGZHOU AND WEIFANG TILE PROJECTS TWO CONTRACTS TO RIEBER AND SONS FOR LINES TO PRODUCE PLASTIC FLOOR TILES.
	6.0	ELECTRIC POWER	YUEYANG THERMAL POWER PLANT CONTRACT TO E/S NERA FOR TRANSFORMERS.
	1.8	TELECOMMUNICATIONS	GUANGDONG POWER NETWORK MICROWAVE COMMUNICATIONS NEW CONTRACT FOR A/S NERA AFTER SIMILAR CONTRACT ONE YEAR EARLIER.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
SPAIN			
	150.0	CHEMICAL	**FUSHUN DETERGENT PLANT** CONTRACTS TO TECNICAS REVNIDAS FOR LINEAR ALKYLBENZENE (72,000 TONS) AND FATTY ALCOHOL (50,000 TONS). UOP AND MITSUBISHI TECHNOLOGY.
	75.0	ELECTRIC POWER	**LIGANG THERMAL POWER PLANT** CONTRACT TO FOSTER WHEELER TRADING COMPANY.
	20.0	TELECOMMUNICATIONS	**HUBEI TELEPHONE NETWORK** CONTRACT TO ALCATEL SPAIN IN OCTOBER TO COVER 43,000 LINES, 18,000 TRUNK LINES PLUS CABLE AND TRANSMISSION EQUIPMENT FOR SEVERAL CITIES.
	20.0	TEXTILES	**TEXTILE MACHINERY** EQUIPMENT FOR TEXTILE MILLS IN LIAONING SOLD UNDER SPANISH LINE OF CREDIT TO CHINA.
	5.0	TEXTILES	**WUXI SYNTHETIC FIBER MILL**
SWEDEN			
	20.0	CHEMICAL	**SHAGHAI TLOUENE DI-ISOCYANATE (TDI) PLANT** TO FUND HARDWARD SALE BY NOBEL CHEMATUR. DUPONT TECHNOLOGY.
	7.0	ELECTRIC POWER	**BEIJING CHENGZI COAL MINE WASHING AND SLURRY PROJECT** SWEDISH TECHNOLOGY AND EUQIPMENT TO MAKE A SLURRY BURNABLE IN POWER PLANTS.
	2.2	FOOD PROCESSING	**LIAONING APPLE JUICE FACTORY** CONTRACT TO ALFA-LAVAL.
	11.0	NON-FERROUS METALS	**PINGGUO ALUMINUM PLANT** CONTRACT WITH ASEA BROWN-BOVERI FOR TRANSFORMING RECTIFIERS FOR SMELTERS.
	4.8	PULP AND PAPER	**XINGHUO PULP PLANT** CONTRACT WITH SUNDS DEFIBRATOR AND ELOF HANSSON FOR PULP EQUIPMENT AT SHANGHAI CARDBOARD FACTORY.
	33.4	TELECOMMUNICATIONS	**GUANGDONG TELEPHONE NETWORK, PHASE I** COVERS CONTRACT WITH ERICSSON FOR SWITCHING SYSTEM FOR 131,000 LOCAL LINES IN SEVERAL CITIES PLUS DIGITAL MICROWAVE TRANSMISSION.
	5.3	TIMBER PROCESSING	**SANMING PLYWOOD FACTORY** FOR SALE OF SHAVING BOARD PRODUCTION LINE. CONTRACT UNDER NEGOTIATION SINCE 1986.

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1988			
SWEDEN	8.4	TIMBER PROCESSING	WUZHOU TIMBER FACTORY CONTRACT WTH SUNDS DEFIBRATOR FOR SHAVING BOARD PRODUCTION LINE IN GUANGXI. SWEDES REPORTED "EVALUATING" FOR SOFT LOAN, 1988.
1989			
AUSTRALIA	11.0	FOOD PROCESSING	ANIMAL FEED MILLS CONTRACTS WITH AUSTRALIAN COMPANIES FOR 3 MILLS.
CANADA	100.0	ELECTRIC POWER	GEHEYAN HYDROPOWER PLANT AGREEMENT IN PRINCIPLE FOR CANADA TO FUND HYDRO TURBINES AND SUB-STATION EQUIPMENT. FINAL
CONTRACT			EXPECTED MID-1989. GENERAL ELECTRIC(CANADA) WILL HAVE PORTION OF BUSINESS.
	40.0	TELECOMMUNICATIONS	SHANGHAI TELEVISION TOWER CHINESE MEDIA ANNOUNCED IN 1989 THAT FACILITY WOULD BE BOUGHT FROM CANADA USING MIXED CREDITS.
	50.0	TELECOMMUNICATIONS	TELEPHONE SYSTEMS IN JIANGXI, SHANDONG, HEBEI, SHAANXI PROVINCES TO FINANCE ALL OR PART OF NORTHERN TELECOM SALE OF 300,000 LINES WORTH OF SWITCHING EQUIPMENT IN 1989.
FRANCE	3.0	AUTOMOTIVE	NUMBER 2 AUTOMOTIVE PLANT SEDAN PROJECT MONEY GRANTED FOR FEASIBILITY STUDY FOR CITROEN TO TRANSFER SEDAN TECHNOLOGY. MAJOR MIXED CREDIT PROMISED LATER FOR IMPLEMENTING PROJECT. COMPETITION FOR PROJECT WITH FORD, USA.
	63.0	CHEMICAL	JINXI CHEMICAL FERTILIZER PLANT LETTER OF INTENT SIGNED WITH TECHNIP FOR AMMONIA PLANT SUPPLY IN LIAONING. COMPETITION FROM M. W. KELLOGG, USA.
	200.0	ELECTRIC POWER	GUANGDONG PUMP STORAGE POWER PLANT CONTRACT TO ALSTHOM FOR TURBINE PUMPS. PROJECT ASSOCIATED WITH DAYABAY NUCLEAR POWER PLANT.
GERMANY	20.0	IRON AND STEEL	DAYE COLD-ROLLED PIPE PLANT TO SUPPLY EQUIPMENT TO MAKE BEARING STEEL.

ANNEX I-14

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1989			
GERMANY			
	250.0	SUBWAY	**SHANGHAI SUBWAY** GERMAN CONSORTIUM TO SUPPLY COMPLETE EQUIPMENT EXCEPT SIGNALLING SYSTEM.
	20.0	TELECOMMUNICATIONS	**SHANDONG TELEPHONE SYSTEM PHASE I** LOAN PROMISED IN 1987-1988 FOR 25,000 LINES OF SWITCHING EQUIPMENT IN VARIOUS CITIES PLUS MICROWAVE TRANSMISSION EQUIPMENT.
GREAT BRITAIN			
	47.5	NON-FERROUS METALS	**BOHAI ALUMINUM PLANT COLD-ROLLING MILL** CONTRACT TO DAVY MCKEE FROM CITIC.
ITALY			
	27.0	CHEMICAL	**JINXI FERTILIZER PLANT** LETTER OF INTENT WITH SNAMPROGETTI FOR UREA PLANT IN LIAONING. COMPETITION FROM M. W. KELLOGG.
	170.0	CHEMICAL	**ZHONGYUAN ETHYLENE AND POLYETHYLENE PLANT** CONTRACT TO CTIP WITH LUMMUS TECHNOLOGY. COMPETITION LIMITED TO ITALIAN COMPANIES.
	50.0	CHEMICAL	**ZHONGYUAN POLYPROPYLENE PLANT** CONTRACT TO TECNIMONT, HIMONT TECHNOLOGY. BIDDING LIMITED TO ITALIAN COMPANIES.
SPAIN			
	15.0	BUILDING MATERIALS	**SHANGHAI CEMENT PLANT** SPANISH CONTRACT. FEASIBILITY STUDY WAS FUNDED BY US TDP.
	15.0	TELECOMMUNICATIONS	**ZHEJIANG TELEPHONE SYSTEM** CONTRACT WITH ALCATEL SPAIN FOR A REPORTED 50,000 LINES.
SWEDEN			
	4.9	FOOD PROCESSING	**SOYBEAN MILK PRODUCTION LINES**
	40.0	TELECOMMUNICATIONS	**GUANGDONG TELEPHONE NETWORK, PHASE II** MONEY PLEDGED FOR ADDITIONAL 80,000-100,000 LINES OF SWITCHING SYSTEMS PLUS AUXILIARY SYSTEMS FROM ERICSSON.
	68.7	TELECOMMUNICATIONS	**JIANGSU TELEPHONE NETWORK** MONEY PLEDGED TO SUPPORT IMPORT OF 200,000 LINES WORTH OF SWITCHING SYSTEMS PLUS AUXILIARY EQUIPMENT FROM ERICSSON FOR 17 CITIES, 1989-1991. SOLE-SOURCE BIDDING.

ANNEX I-15

	VAL OF CONTRACT FUNDED BY SOFTLOAN ($ M)	SECTOR	PROJECT / COMMENTS
1989			
UNITED STATES	20.0	SUBWAY	SHANGHAI SUBWAY SIGNALLING PROJECT CONTRACT WITH GENERAL SIGNAL. WARCHEST MONEY USED TO COMBAT GERMAN COMPETITION.
1990			
GERMANY			
	10.0	TELECOMMUNICATIONS	SHANDONG SWITCHING PHASE II GERMANS APPRAISED IN 1988 FOR FUTURE LOAN PROJECT.
	60.0	AUTOMOTIVE	BAOTOU HEAVY DUTY TRUCK PLANT LOAN PLEDGED TO SUPPORT TRANSFER OF BENZ TRUCK TECHNOLOGY AND FACTORY RENOVATION.